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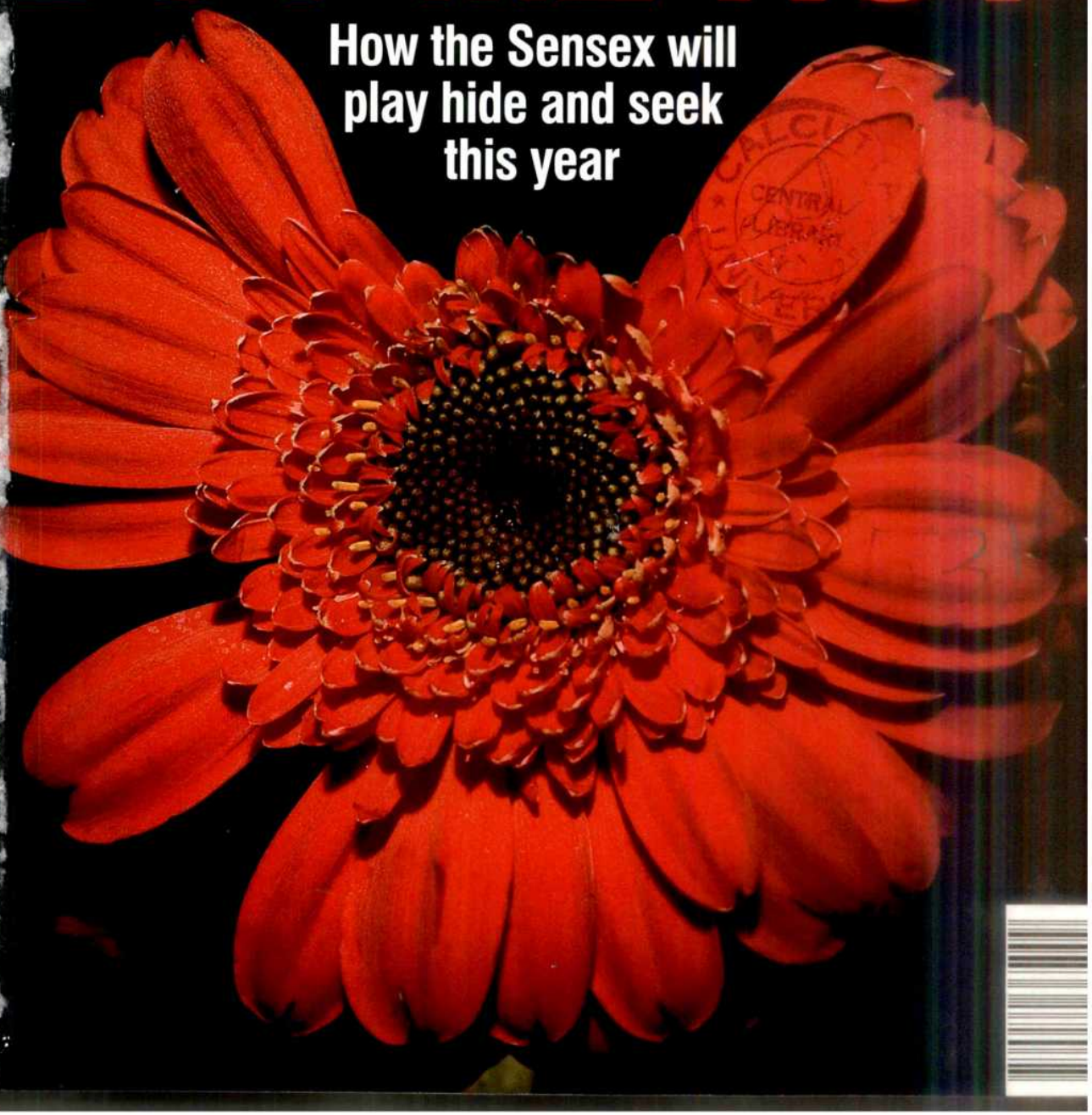

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From the Editor P32980

Stock markets and their behaviour are an inexact science. Technical analysts will study head and shoulders patterns, Fibonacci retracements, stochastic oscillators and sundry chicken entrails to tell you why prices are headed up or down. It's like baking a bad lasagna — layers of febrile data, volatile fund flows, political flux, a government besieged — you are probably not going to find the result tasty. The Bombay Stock Exchange is the oldest in Asia, and at the moment it does look stooped and twitchy. On Wednesday February 9 alone, investors blasted a $2.5 billion hole in the value of companies controlled by Anil Ambani. And to think that just over three months ago, when the US Federal Reserve announced QE2 — its second round of quantitative easing, by buying $600 billion in Treasury securities through this June — there were worries that tsunamis of foreign funds would sweep through emerging markets. Instead, the BSE Sensex has fallen three weeks in a row. Foreign institutional investors who pumped close to $29 billion into Indian stocks in 2010 had pulled out a net $1.4 billion in 2011 until this issue went to press. Growth in the Index of Industrial Production fell to 1.6 per cent in December, its slowest pace in 20 months. The Reserve Bank of India is expected to announce an eighth round of interest-rate increases in March in a bid to rein in inflation. Enough to make you believe that it is best to push your money under your mattress. Is it really that bad? Senior Editor Anand Adhikari and Special Correspondent Rajiv Bhuva tell you what to expect starting on page 50. Look at the charts on page 57 and you will understand why — India's stock markets are still very shallow; just 3 per cent of household savings go into equities, and 200 of 5,000 listed stocks account for 80 per cent of market capitalisation. One way is to diversify into commodities. Trading volume on the MCX alone totalled a breathtaking ₹86.35 *trillion* in 2010 — a 325 per cent leap in four years!

I have wondered what it must be like to be a finance minister for a nation of 1.3 billion people, drafting a revenue and expenditure budget. Phalanxes of pundits bombard you with advice on how you can earn and spend. Last year Pranab Mukherjee's budget speech was over 10,000 words, a mere distillation of the millions thrown at him. At *Business Today* we believe our words are worth their weight in gold (*see commodities, above*). Who better than former finance minister Yashwant Sinha, who has long and valuable experience both as a civil servant and a technocrat, to head a panel of experts to present Pranab*da* with a dream budget? Associate Editor Puja Mehra helped to assemble the distinguished group headed by Sinha and you can read their views, larded with common sense, experience, expertise and a huge dose of candour, starting on page 42. "After 63 years of independence, the equity part of growth has become so important; if this is not addressed then maybe we have an Egypt in the making," Sinha said. On economic deprivation he was equally lacerating on "how comprehensively all of us have failed in this respect".

Talking about deprivation, you must read Senior Editor N. Madhavan's tale of disgraced former telecom minister A. Raja's home district of Perambalur in Tamil Nadu (page 32). It makes you wonder — if as much money as is being alleged was indeed made by the lawyer-poet Dalit politician, where did it go?

Chaitanya Kalbag

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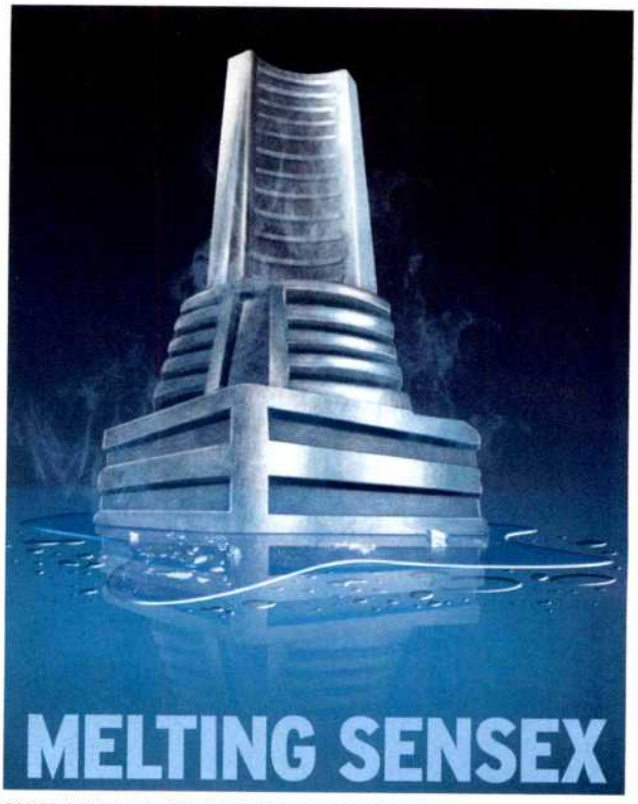

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According to the 2010 Global Corruption Barometer by Transparency International, 78% of Georgians think that corruption has decreased over the last 3 years – the best result across the 86 countries surveyed. According to the TI survey, only 3% of Georgians who had contact with various public services reported paying a bribe in the past 12 months. This is a better figure than the EU average and places Georgia in the pool of countries whose citizens report the fewest bribes in the world. The survey also shows that 77% of Georgians believe that Government action has been effective in the fight against corruption, making Georgia's result the 2nd highest globally. These achievements are even more important when set against the global perception that corruption has increased in the past 3 years and, as noted by TI 'one out of four worldwide has paid a bribe in the past year.' Another recent survey conducted by the International Republican Institute, Baltic Surveys and the Gallup Organization, points out that only 0.4 per cent of the population of Georgia has paid a bribe to get a service or a decision. To find out how to become part of Georgia's big success story please visit georgia.gov.ge

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India Sputtering

Tied Down Economy (cover story, February 20) utilised sound data to highlight the India Slowing story. It prescribed correct directions to concretise ongoing initiatives so we don't veer away from the growth path. The editor's analysis correctly pointed out that monetary policy is a blunt instrument to tackle inflation. All in all, a satisfying package.

B. Rajasekaran, *via e-mail*

Inflation Bogey

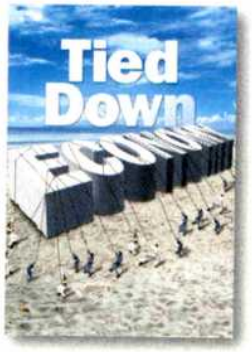
The levy of multiple taxes at high rates is stoking inflation (*The Inflation Conundrum*, February 20). Without doubt, a sizeable portion of the selling price of any commodity consists of taxes. The Centre has recently taken long-term measures to rein in inflation. But strict implementation of these measures is the only way inflation can be checked.

Mahesh Kumar, *via e-mail*

MNP Worries

This refers to mobile number portability (*Operator Agnostic*, February 20). While number portability offers protection against shoddy services by mobile operators, it does not provide any reprieve from unsolicited calls and SMSes from marketers, a major reason for frequent mobile number changes by subscribers. So far, efforts by the telecom regulator to check this menace have failed. Now, service providers who are looking to retain subscribers or win new ones must act against this nuisance by allowing automatic deletion of such calls and SMSes from their servers. Surely, customers will give preference to such a service over lower tariffs.

Mahesh Kapasi, *New Delhi*



"In *Tied Down Economy*, the analysis correctly pointed out that monetary policy is a blunt instrument to tackle inflation"

Best Guideline

Your cover story *Best Companies to Work For* (February 6) talks about employees seeing themselves as brands, making hard choices and seeking work-life integration, among other things. If the companies want to achieve best employee relations, this study should serve as the best guideline. After all, it is in the interest of companies to create a conducive atmosphere and increase productivity.

Jacob Sahayam, *Thiruvananthapuram*

www.businesstoday.in@coverstory: *Tied Down Economy (BT*, February 20) on India's big challenge – sustaining the economic growth rate.

www.businesstoday.in@coverstory: *The Best Companies to Work For (BT*, February 6) showcases the best employers and an account of their workforce.

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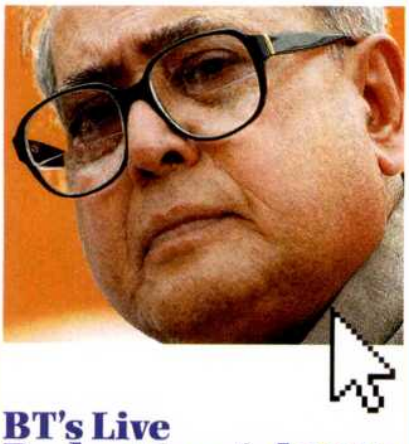

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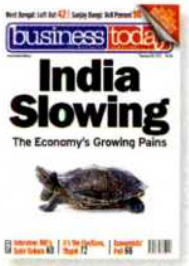

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Not Coming up Roses

Valentine's Day may be the festival of love but it's also a sweet season for flower growers, who see a spike in sales during this week. As input costs rise, profits from cut flower exports have dropped over the past several years.

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RAJAT BARAN

Rough Weather Ahead

The earnings season gives indications that corporate India might find the going tough in the next few quarters, says Vikas Khemani

This earnings season has not fully reflected the changed environment but offers a lot of indicators on what is in store. Approximately 60 per cent of the companies that have declared results have either met or exceeded analysts' estimates and 40 per cent have negatively surprised the market. So, why then are the markets not cheering this earnings season? One of the main reasons could be that it does not fully reflect the changing macroeconomic conditions. Yet we get a sense of what to expect in the coming quarters.

The key takeaways are rising input costs and a slowdown in order book accretion. Although volumes have remained stable, margins have definitely come under pressure in many sectors. However, I feel that the full impact of rising input costs is not yet reflected because of inventory gains. Typically, companies keep two to four months of raw material inventory which helps them if prices go up in the short term.

19%

is the top-line growth of corporate India in Q3 at the time of going to press

This strategy fails if prices continue to climb and inventory has to be replaced, leading to higher input costs. The sudden change in the macroenvironment after October, when both inflation and inflationary expectations went up, squeezed margins only towards December. There is a high possibility that Q4 numbers will disappoint the street both on volume as well as margins.

On the expense side, rising interest rates could push up borrowing costs, negatively impacting rate-sensitive sectors. Most capital goods and construction companies have reported a significant slowdown in order book accretion, clearly raising concerns about the pace of investment activity by corporate India. This situation is unlikely to improve in the near term. Now let's take a look at how some of the key sectors have fared.

Technology results are good with strong volume growth, though rising wages are a concern. Given the growth outlook of the sector, it will be able to absorb the hikes, and hence markets are not unduly worried about the rising cost pressure.

For banking, Q3 was probably the best period in terms of margins, and one can expect pressure on the net interest margin, or NIM, to intensify due to the lagged-effect of re-pricing of deposits over advances. Also, there were signs of slippage in the asset quality. Banks with a strong CASA, or current account and savings account, franchise do well in a rising interest scenario. If a 10-year bond yield inches up beyond 8.15 per cent, Q4 numbers will have an impact on that as well.

Most fast-moving consumer goods, or FMCG, companies reported a 200-300 basis points drop in gross margins because of the steep rise in food prices and other input costs. However, most companies offset this with the help of the inventory effect and significant cost-cutting on discretionary spends like advertising and promotion. Even consumer durables companies were affected by rising commodity prices. This trend is likely to continue till we see inflationary pressures easing.

The auto sector also faced cost pressure due to rising prices of commodities such as steel, aluminium and rubber. The margins were impacted by 200 basis points, but this was partly offset by an increase in realisation. Volume growth is unlikely to continue since it is a rate-sensitive sector. Rising cost of products with rising cost of interest and oil may impact the sector over the next three to four quarters.

We believe that most of the upsides have been factored in so far, and, surprisingly, one has still not seen significant downgrades in earnings by analysts. This leaves a lot of scope for negative surprises in the quarters to come. In my opinion, in the next quarter analysts could downgrade earnings estimates for FY 2012 as cost pressures intensify in terms of rising input and borrowing costs. India's relative valuation premium compared to other emerging markets has already come off a bit because of the recent underperformance.

In a nutshell, if cost pressures continue, we will see downgrades in earnings estimates, leading to a cycle of further de-rating of Indian equities.

The author is the Head (Institutional Equities), Edelweiss Securities

KHEMANI'S TAKE

- The current earnings season does not fully reflect the changing macroeconomic conditions
- Majority of companies have either met or exceeded analysts' estimates
- Q4 numbers will disappoint the street both on volume and margins
- Rising input costs and slowdown in order book accretion already visible
- Rising interest rates may push up borrowing costs and hurt rate-sensitive sectors
- Q4 will see analysts downgrade earnings estimates for fiscal year 2012

WORDSMITH

(NEW WORDS IN BUSINESS)

Elevator Pitch

(El-wait-tur P-ich)

What it means: A very short, concise speech meant to convince somebody about the validity of an idea, product, or service. Usually, used in the venture capital world.

Origin: The word owes its origin to Hollywood where scriptwriters would accost producers in an elevator and quickly pitch their scripts.

Usage: The secret of a good elevator pitch for a venture capitalist is to begin smartly and end it quickly.

Cleaning Up the Telecom Mess

The government hopes to untangle the spectrum imbroglio with its new telecom policy. BY MANU KAUSHIK

What is proposed

Telecom Minister Kapil Sibal has announced a new National Telecom Policy that de-links 2G spectrum allocation from telecom licences. So far spectrum has been offered free with licences. The policy will make the government coffers swell as it mandates that old operators such as Bharti Airtel, Vodafone Essar and Idea will pay market-driven prices for spectrum usage beyond 6.2 mega hertz (MHz). In addition, new operators such as Uninor, MTS, Videocon and Etisalat, which were given licences in the 2008 auction, will have to pay for using spectrum beyond 4.4 MHz — if their licences are held valid.

After the current licence lapses for telcos, they will have to renew it by paying separately for licence and spectrum. The 2G licence of many operators, including Bharti Airtel and Vodafone, will expire between 2014 and 2021.

How it is different...

Under the earlier guidelines, the operators had paid ₹1,658 crore (the price was discovered through an auction held in 2001) to get licences in 22 circles of the country, along with 4.4 MHz of spectrum free.

According to the draft recommendations of the Telecom Regulatory Authority of India, or TRAI, the government can collect over ₹90,000 crore by allotting additional 1.8 MHz of 2G spectrum to six new operators with pan-India operations. But TRAI's formula for the price in each circle is yet to come. "I don't think TRAI will fix the prices on the basis of 3G prices. 3G spectrum is three times more efficient than 2G and the two can't be put in the same category," says Bhavesh Gandhi, telecom analyst at India Infoline. Last year, the Comptroller and Auditor General of India, or CAG, accused the telecom ministry of selling spectrum in 2008 at unrealistic prices, which has caused a notional revenue loss of ₹1.76 lakh crore to the exchequer.

... and the impact

The new policy is expected to push up tariffs for customers. "The financials of major players are stretched at the moment. The tariffs have gone down significantly, which has resulted in EBITDA margins of old operators going down from 40 per cent two years ago to less than 30 per cent now. And they may pass on this burden to the customers," says Gaurav Dixit, analyst at rating agency Care Ratings. The government, though, is expected to safeguard the interests of the operators as well. "One way could be to allow old operators to share spectrum (where it is not fully used) with other players which can bring them more revenues," says Dixit. Also, the government has indicated a reduction in the revenue sharing fee. This will benefit the big operators.

Some analysts expect the government to evolve a policy to encourage mergers and acquisitions, which will result in consolidation and healthy competition. Large markets such as the US, Japan and Brazil have four to five operators at the most. India, on the other hand, has 15.

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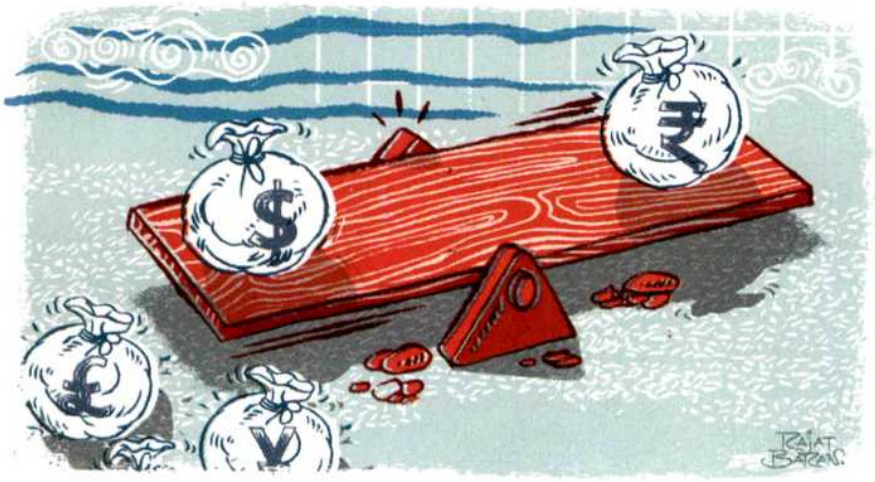
Betting on Currencies

The currency market may soon become a happy hunting ground for retail investors as trading volumes soar. BY PRITAM P. HANS



The currency derivatives market in India is gaining heft with daily volumes scaling new highs. Starting with a meagre ₹800 crore in August 2008, the volumes have shot up to a daily average of ₹45,000 crore now. It is expected to become a big draw for retail investors soon.

How it works

Currency derivatives can be traded on the National Stock Exchange, the Multi Commodity Exchange and the United Stock Exchange. A trader can invest in both currency futures and options. A futures contract gives you the right to buy or sell a specified quantity of a currency on a fixed date at an agreed price. An options contract is more flexible as it grants the holder the right, but does not make it mandatory to buy or sell currency at a fixed rate on a specified date. Currently, only resident Indians (individuals, companies and financial institutions) can trade in the four currency pairs available in the local market — dollar/rupee, pound/rupee, euro/rupee, and yen/rupee.

Its advantages

Under ordinary conditions, the currency market is less volatile compared with equities, making it a relatively less-risky asset class. "It is easier to predict this market and take positions," says Pramit Brahmbhatt, CEO, Alpari Forex (India), one of the leading forex brokers in the country. Trading in currency derivatives also requires lower capital than equity derivatives as you need to pay a much smaller premium or margin — as low as ₹1,000 on a contract value of over ₹30,000.

And its drawbacks

Taking a position on currency movements requires a basic understanding of the macroeconomic conditions that influence the valuation of a currency such as inflation, interest rates, crude oil prices and government policies. Low awareness about the product is one of the reasons why it has remained a market largely for banks, traders and corporations in India. But the surge in liquidity should lead to a greater retail participation. "First-time traders should start with small ticket sizes," advises Pankaj Pandey, Research Head, ICICI Direct. Globally, retail accounts for 10 per cent of spot forex turnover.

Courtesy: *Money Today*

NUMBERS OF NOTE

₹1,518 CR

The net profit of NMDC Ltd (formerly National Mineral Development Corporation) for the third quarter. Profits were up 81 per cent year on year.

20 PER CENT

The year-on-year fall in Hero Honda's profit. Net profit for the third quarter dipped to ₹429 crore from ₹536 crore in 2009.

₹154 CR

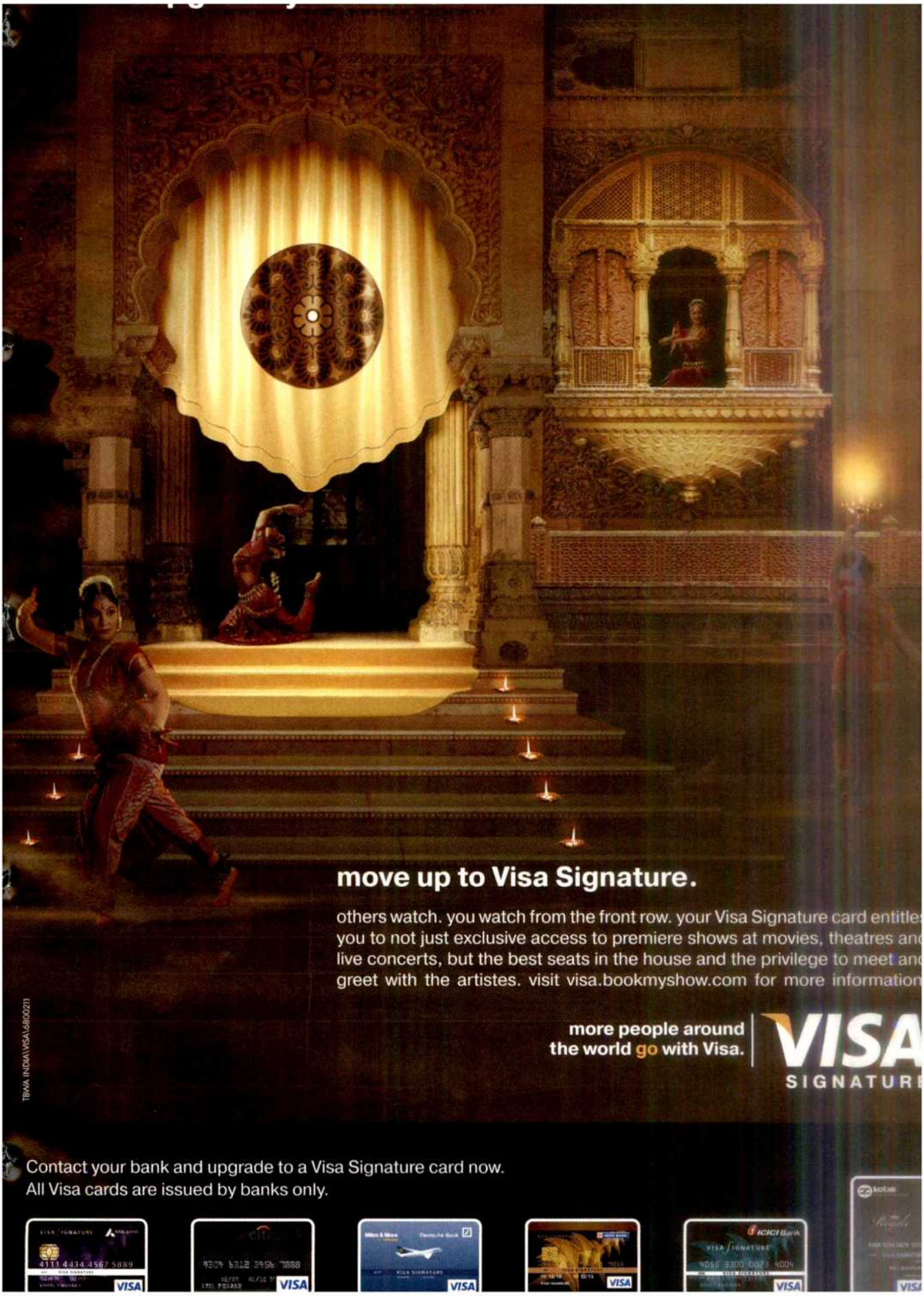
The net profit of Dabur India for the third quarter, against ₹139 crore in the same period of 2009.

2 PER CENT

The year-on-year dip in the net profit of Hindustan Unilever Ltd for the third quarter, showing a profit of ₹637.5 crore.

180,000

The number of people projected to be hired by the top five Indian information technology companies in 2011.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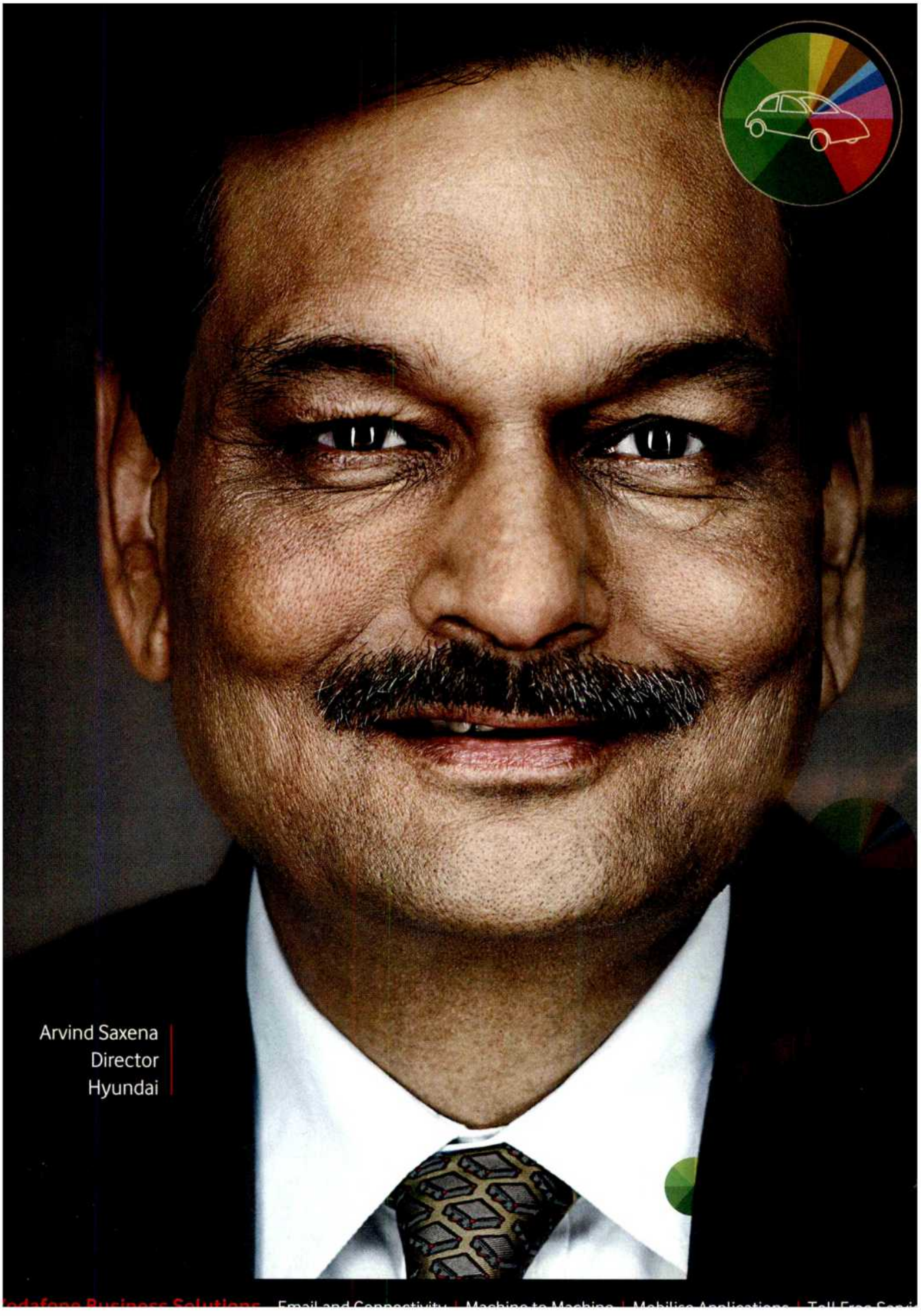

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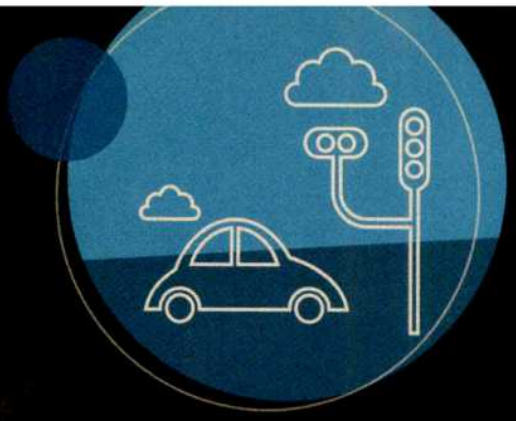

"Vodafone is a partner who understands our business. That is music to our ears."

"At Hyundai, every product we introduce is designed based on an in-depth understanding of our customers' needs. What makes Vodafone a great partner is that they share the same approach to their own work. Not only do they deliver world-class mobile connectivity to us across the country, they understand how their offerings can make a difference to us, and design the solutions accordingly. Like converting a simple employee callertune into an effective medium to deliver brand messages. That's the hallmark of a true partner, one we would like to grow with."

To find out how Vodafone can partner you to grow your business visit www.vodafone.in/business

power to you

Apple's iPad is finally available in India. Thank God.

Introducing, the iPad

A year after Steve Jobs showcased the iPad to the world, Apple has released the product in India. Enterprising souls, also known as Apple "fanboys", made sure they acquired one from international markets well before it reached Indian shores. Several websites charged customers a steep 30-40 per cent premium on its retail price to home-deliver one in India.

So, it was a pleasant surprise when Apple launched the iPad pretty much at par with the global prices for the product — starting at ₹27,900 for the plain vanilla 16-gigabyte model with Wi-Fi connectivity to ₹44,900 for the top-end 64-gigabyte model with both Wi-Fi and 3G. You cannot fault Apple on its pricing.

People may argue that there are plenty of cheaper tablets running Google's Android operating system. But the iPad still scores over other products. The biggest differentiator is the range of applications. On the AppStore there are many applications which are customised for the iPad and take advantage of the better resolution of its screen. In fact, Angry Birds HD alone is possibly a very good reason to buy an iPad. There is no doubt that the Android will emerge as a dominant smartphone platform in India, but it has a long way to go on the tablet front as well as apps.

Now, this is not to say that the iPad does not have its flaws. The aluminium body is extremely fragile and a leather or plastic case is a necessity. It might have been nice if one could attach the USB drive directly to the iPad to watch movies, but that's not a fatal flaw. While Android tablets allow you to make calls, we doubt whether people will lift a seven- or 10-inch tablet to make calls.

Is the iPad the best tablet out there? Absolutely. Should you buy one? If you have the money, definitely, though, after looking at the initial 3G pricing by private operators, one could skip the 3G version unless a BSNL or MTNL connection is available.

KUSHAN MITRA

➕ It is an iPad; Angry Birds HD

➖ Fragile body, no USB port, inability to make phone calls

Price: ₹27,900 (16GB, Wi-Fi); ₹32,900 (32GB, Wi-Fi); ₹37,900 (64GB, Wi-Fi); ₹34,900 (16GB, Wi-Fi+3G); ₹39,900 (32GB, Wi-Fi+3G) ₹44,900 (64GB, Wi-Fi+3G)

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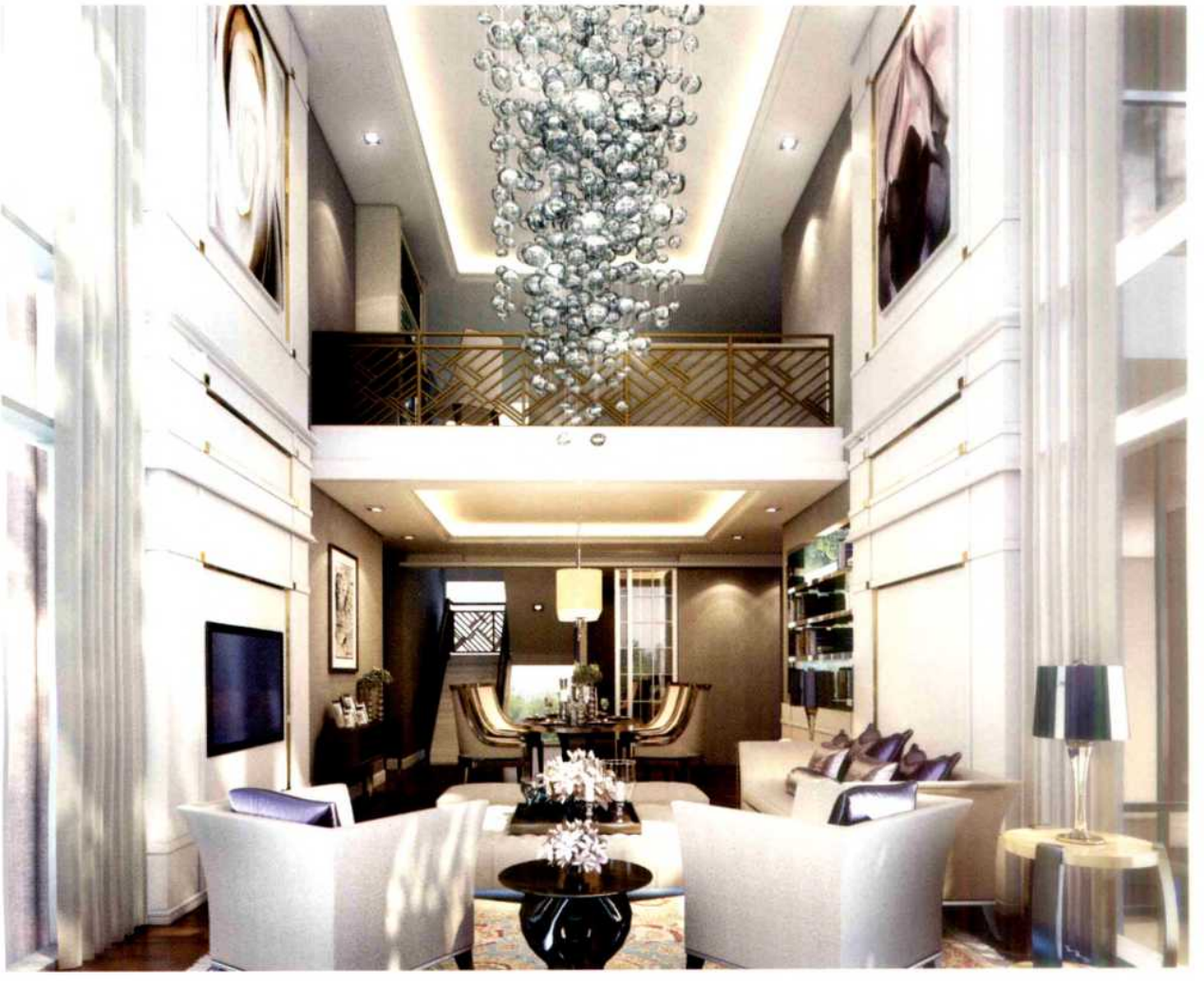

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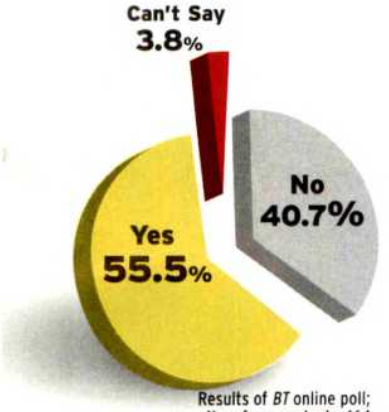
P32980

Should the government allow FDI in multibrand retail as a long-term strategy to combat inflation?



Results of *BT* online poll; No. of respondents: 164

Most agree that foreign direct investment, or FDI, in multibrand retail will be a right step.

So far, any suggestions by the government in this direction have been resisted by the Opposition. Even in the government, there are sections opposed to it. They argue that the entry of global retail giants will sound the death knell for *kirana* stores that dot the retail landscape in India and employ some 33 million people.

But the time may have come for the government to bite the bullet and permit FDI in multibrand retail. That may be the key to easing the massive supply bottlenecks, especially in the agricultural sector, and reining in inflation. These are among the reasons why most of the developing economies have permitted FDI in the retail sector.

Next poll question:

Should the RBI persist with a hard interest regime to tame inflation?

Log on to www.businesstoday.in to cast your vote

BT-CARMA

CEO Watch

INDIA'S AND THE WORLD'S MOST TALKED-ABOUT CEOs IN JANUARY

Anil Ambani

RAJAT BARAN

The Ambani brothers bagged the top two spots in our list. Anil was the most tracked CEO in January, thanks largely to SEBI banning two of his group companies — Reliance Infrastructure and Reliance Natural Resources — from investing in the secondary market till December 2012, for alleged use of borrowed overseas funds to invest in the stock market.

Mukesh got positive reviews in the media during the Gujarat summit on January 12 and 13. At the summit, Anil described Mukesh as "one of the greatest wealth creators in India", which got wide media coverage.

ICICI Bank MD and CEO Chanda Kochhar was also in the news for being selected co-chair at the World Economic Forum meeting in Davos.

TOP 10 INDIAN CEOs

Mukesh Ambani

Ratan Tata

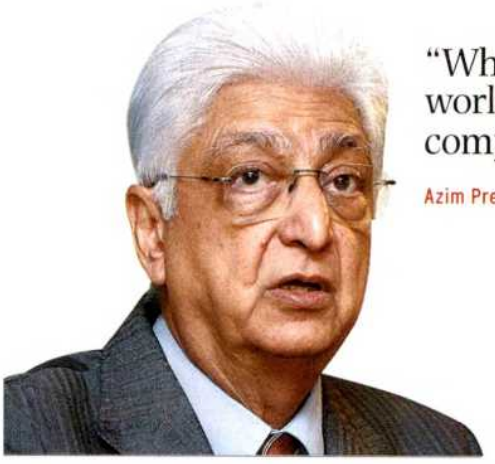
Rank	CEO/Company	No. of Stories	
1	Anil Ambani/ ADAG	54	▲
2	Mukesh Ambani/ Reliance Industries	32	▲
3	Ratan Tata/ Tata Group	26	▼
4	Azim Premji/ Wipro	19	▲
5	O.P. Bhatt/ State Bank of India	16	▲
6	Chanda Kochhar/ ICICI Bank	15	NEW
7	N. Chandrasekaran/ TCS	12	NEW
8	S. Gopalakrishnan/ Infosys	11	▲
9	A.M. Naik/ L&T	8	NEW
10	Deepak Parekh/ HDFC	8	—

TOP 10 GLOBAL CEOs

Mark Zuckerberg

Rupert Murdoch

Rank	CEO/Company	No. of Stories	
1	Steve Jobs/ Apple	91	▲
2	Mark Zuckerberg/ Facebook	56	▲
3	Rupert Murdoch/ News Corp	46	▼
4	Jamie Dimon/ JP Morgan	45	NEW
5	Warren Buffett/ Berkshire Hathaway	42	▼
6	Eric Schmidt/ Google	40	▲
7	Steve Ballmer/ Microsoft	37	NEW
8	Vikram Pandit/ Citigroup	33	NEW
9	Jeffrey Immelt/ General Electric	31	▼
10	Bob Dudley/ BP	28	NEW



"What is really happening is a slowdown of the western world and growth of the emerging markets. This is a complete shift in the balance of power."

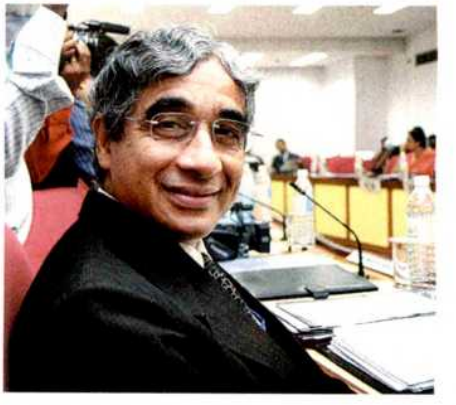
Azim Premji, *Chairman, Wipro, at the World Economic Forum in Davos, in* The Telegraph

"It is not obvious where the Indian policymakers are (going on inflation), so people are worried about what kind of inflation level will be tolerated."

Jim O'Neill, *Chairman, Goldman Sachs Asset Management, in* Mint

"We need a revolution. Climate change is also showing us that the old model is more than obsolete."

Ban Ki-moon, *UN Secretary General, on the need for a consensus on climate change, at the World Economic Forum in Davos, quoted by wire agencies*

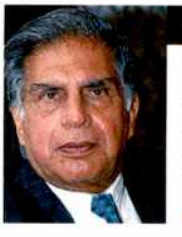


"Many Indians own homes because of SBI. I am not fighting against RBI but only clarifying it. I have not teased anybody, there is no risk and there is no opacity."

O.P. Bhatt, *SBI Chairman, on his differences with RBI on teaser home loans, in* Business Standard

"The euro is our currency. And, it is much more than just a currency. It is the embodiment of Europe today. Should the euro fail, Europe will fail. We are going to defend the euro."

Angela Merkel, *German Chancellor, on the euro zone crisis, quoted by wire agencies*



CLASSIC BUSINESS QUOTE

"The strong live and the weak die. There is some bloodshed, and out of it emerges a much leaner industry, which tends to survive."

Ratan Tata

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Mumbai					Seoul
	Arrival	0220+1	Mon,Wed,Fri	2040	Departure

* Flight schedule is subject to change.

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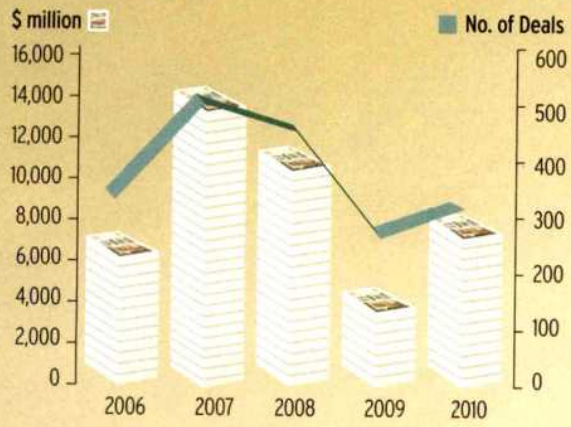
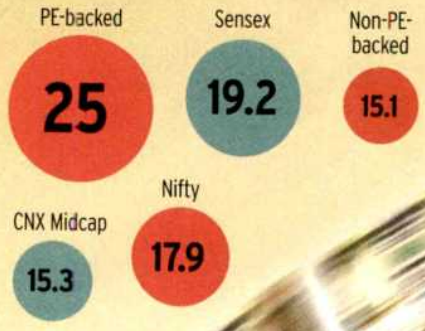
PE Investment in India

Almost $45 billion has been invested by PE firms in more than 1,500 deals in the last five years



Annual Sales Growth (%)



India has a thriving private equity (PE) industry. And the PE companies have been forging active partnerships with their investee firms to help them scale up rapidly. The result: The PE-backed companies have outperformed their industry peers in terms of growth in sales, profitability, wages and R&D investments.

THE PE CUTTING EDGE

5 STEPS TO HERE

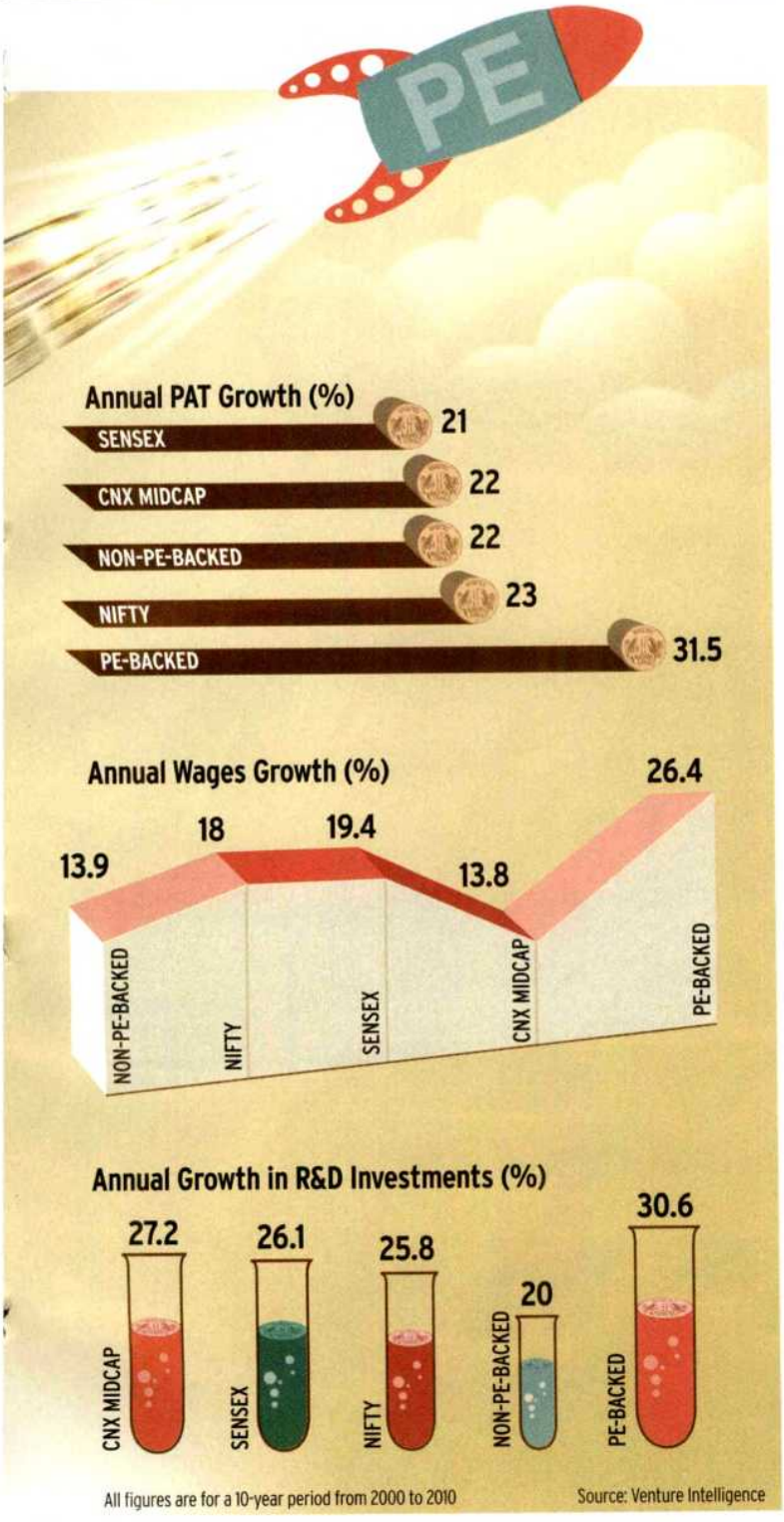
POSCO'S ROADBLOCKS

1

June 2005
The Orissa government and POSCO sign a MoU for setting up a $12-billion steel plant.

2

June 2007
Orissa seeks the environment ministry's nod for granting 1,253 hectares of forest land to POSCO.



SANTOSH KUSHWAHA

BT Retro
January 2, 2005

Waiting for the Sun

THEN: "It sounds more complex than the shareholding pattern in Reliance," laughs the telecom analyst at a Mumbai-based brokerage. His reference is to the centrepiece of the spat between the Brothers Ambani, the 29 per cent stake in Reliance held by a web of holding companies — the stake that one brother implies he controls. And he is talking about Hutchison Essar, the company whose creation has just been cleared by the ministry of finance. "The company will probably spend the entire analysts' meeting explaining it," he adds.

The facts first: the finance ministry comes into the picture because Hutch is a foreign company (Hutchison Telecom International Limited, or HTIL, promoted by Hong Kong-based tycoon Li Ka-shing) and Indian laws are very particular about how much of a telecom company a foreign corporate can own (the ceiling for foreign direct investment is 49 per cent). The government chooses to turn a blind eye to indirect ownership — for instance, company A can own 49 per cent in telco T directly; the remaining 51 per cent can be held by a joint venture in which Indian company B owns 51 per cent and A owns 49 per cent; thus, the total 'economic' stake of A in T becomes 73.01 per cent — but with HTIL set to own 42 per cent in Hutchison Essar directly, and 14 per cent indirectly, the new structure needed to be cleared by the ministry of finance.

And the bit about the analysts comes into the picture because Hutchison Essar plans to make an initial public offering, or IPO.

NOW: In 2007, Vodafone had bought Hutchison India's 67 per cent stake in the Hutchison Essar joint venture for about $11 billion. Currently, Hutchison and Essar are wrangling over Essar's 33 per cent stake in the joint venture.

3

July 2010
A four-member committee examines the issues relating to transfer of forest land.

4

August 2010
The project is put on hold citing violation of environment and forest laws by POSCO.

5

Jan 2011
Environment Minister Jairam Ramesh grants conditional clearance to the project.

ANAMIKA BUTALIA

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HINDALCO

ADITYA BIRLA
HINDALCO

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RACHIT GOSWAMI

EDWARD E. NUSBAUM is CEO of Grant Thornton International, the fifth-largest audit and accounting firm in the world. GTI makes up the second rung of accountancy firms after the Big Four (PwC, Deloitte, KPMG, and E&Y). It is expected to get into the top rung soon. Nusbaum spoke to *BT*'s SUMAN LAYAK during his recent India visit. Edited excerpts:

While the Big Four help the multinationals find their feet in India, Grant Thornton will specialise in helping Indian companies go global. It might be in terms of setting up businesses abroad or advising them on acquisitions as well as fund raising – especially companies in their growth phase that want to list in an exchange like AIM of the London Stock Exchange.

Most countries are moving towards International Financial Reporting Standards, or IFRS, though all the regulations are not out. IFRS provides consistent information around the world, but it means more work for the companies. The speed at which countries are moving varies. The US is probably the slowest. Europe and China are moving fast. It will benefit the Indian companies in their global transactions. (In India, around 300 companies will move to IFRS by the next financial year.)

We need dialogue to improve the quality of audits, address the fraud risks, and a huge push to change regulations. The first thing to recognise is that status quo will not work. On a global basis, we need to keep evolving. Scandals are very damaging, not just for accounting but for business in general. You will never be able to stop all fraud, but it will be a mistake to put our heads in the sand, hoping that the problems will go away.

Auditor rotation will have its impact on the long-term costs, which may be a negative impact on the quality of audits. Over the short term, it may be beneficial for us, but over the long term, it has not really proven to be useful.

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HONDA

HOW THINGS WORK

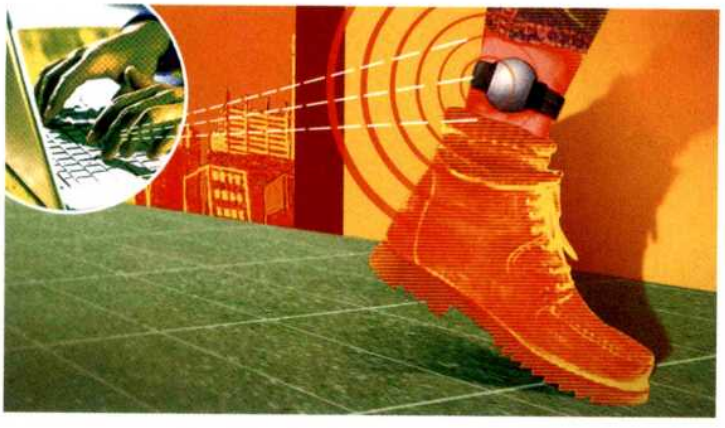
Electronic Tagging

Last fortnight, there were a lot of creased brows in India when it emerged that Indian students in the United States were being 'tagged' using electronic anklet devices, in the wake of an immigration scam. This is not the first time that this controversial technology has been used in the US to track people.

So, how does tagging work? Well, a device — bracelet, anklet, dog tag — is attached to the offender authorities want to track. The device can then use either Global Positioning System (GPS) or Radio Frequency Identification (RFID) to track the movements of the person.

Tags using RFID come with an integrated circuit that processes information, and an antenna that receives and broadcasts it. In GPS tags, a single chip-based system is employed that broadcasts data to a satellite, which, in turn, relays the coordinates of the tag at periodic intervals.

In anklet or bracelet tags, like the ones attached to the Indian students, the device transmits information to a central hub connected to a phone line or mobile phone. That data is then broadcast to authorities. An alarm goes off as soon as the tagged person goes out of reach.



SANTOSH

JUST WONDERING

Raju Trial Drags on

Two years after former Satyam boss B. Ramalinga Raju confessed to cooking the books of India's fourth-largest software services company, the trial is still dragging on in a special court. To be fair, the Satyam scandal, despite Raju's confession, is one of the most complex corporate frauds ever. The Central Bureau of Investigation, or CBI, had listed nearly 700 people as witnesses in the beginning, but has whittled that down to 400. Of these, only 100 have deposed in court so far. While the Supreme Court has set a deadline of July 31, 2011, for the special court to complete the trial, even after that Raju and the other accused have the right to contest the verdict in the apex court. Guess this is one case where one will have to wait a few more years before justice is served and administered.

COMPILED BY ANAMIKA BUTALIA, T.V. MAHALINGAM

Quirky

Just Not Write

Physician, healthy doodle. This is the sum and substance of the latest letter written by pharmacies in Mumbai to doctors in the city, asking them to better their scrawls in prescriptions. The Retail & Dispensing Chemists Association, an umbrella body of 5,800 pharmacies in Mumbai, has suggested that doctors either issue printed prescriptions or write them in capital letters. If that sounds like pharmacies are making a mountain out of a molehill, consider this: a recent report by the Institute of Medicine in the United States stated that more than 7,000 Americans died annually and 1.5 million got worse, rather than better, due to wrong dosage as a result of sloppy handwriting. Seems like doctors, across the world, are dishing out the strong and wrong medicine.

Snoot Corner

Sushi Byte

Japanese cuisine has become a favourite the world over. With so many sushi menus to choose from, a little know-how about sushi goes a long way. Contrary to popular belief, sushi originated in China, not Japan, as a way of preserving fish. It is wrapped in rice and fermented to keep the fish edible for longer periods. Sushi was meant to be eaten by hand, which is why a well-made, traditional "nigiri" sushi roll breaks when you use chopsticks to dip it in soy sauce. The essential ingredient – wasabi – is actually very difficult to grow; most restaurants make a wasabi-like mix using horseradish powder, mustard and green food colour.

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THE OTHER END OF THE SPECTRUM

The people in scam-tainted former telecom minister A. Raja's hometown languish at the bottom of the development chart. BY N. MADHAVAN

Nestled amidst verdant hills 13 km from Perambalur, the eponymous district headquarter town in southern Tamil Nadu, this village conveys a sense of raucous well-being. It appears especially so when seen from atop a nearby hillock that houses the temple of Lord Muruga, the village's presiding deity. Down below, its 600-odd tiled-roof houses stacked along narrow lanes with open drains running alongside, and the ubiquitous television sets belting out Tamil music and serials from most homes reinforce that feeling.

As you trudge down and talk to a few villagers, it soon becomes clear that the village's green cover (thanks to the recent spell of rain) actually camouflages its underbelly of poverty and backwardness.

Welcome to Velur, the home of Andimuthu Raja, the 2G spectrum scam-tainted former telecom minister. Born in 1963 to S.K. Andimuthu and Chinnapillai, the youngest of eight children, Raja grew up in the village and completed his education (B.Sc, B.L, M.L) from the nearby Tiruchirapalli city.

His early involvement in public life in Perambalur through E.V.R. Periyar's Dravidar Kazhagam eventually led him to the Dravida Munnetra Kazhagam (DMK) in the 1990s. Being a Dalit and well-educated — a rare combination then — ensured his growth within the party. His Tamil poetry writing skills also endeared him to DMK patriarch M. Karunanidhi, himself a poet. Raja represented the reserved Perambalur Lok Sabha constituency in 1996, 1999 and 2004. In 2009, he shifted to Nilgiris as the Perambular constituency was de-reserved.

That he continues to be the DMK strongman in the region was evident when his supporters brought the entire district to a grinding halt for more than a day soon after his arrest by the Central Bureau of Investigation.

Ironically, Raja's rapid rise as a politician and his enormous clout with Karunanidhi have meant very little to his people. A day after Raja's arrest on February 2 and undeterred by the bandh call given by his supporters, Velur resident N. Chidambaram, 65, is busy irrigating his one-

Pent-up demand: A recent skills training-cum-job fair at Perambalur saw over 7,000 people registering in just two days

PHOTOGRAPHS BY H K RAJSHEKHAR

acre plot on which he cultivates paddy, groundnut and onions. "If the rainfall is good and commodity prices high, I manage to earn a surplus of ₹20,000 a year," he says in Tamil. He did so three years ago. "The last few years have seen insufficient rainfall. I was unable to irrigate the crops properly," he rues.

A. Karunakaran, 61, who has a one-acre plot nearby, echoes Chidambaram. "We usually end up borrowing to make our ends meet," he says. The two seem resigned to their fate. Don't they feel disappointed that Raja has not brought about any transformation in their lives? "What can we do? Politicians talk a lot and when they come to power forget everything," they reply with a sheepish grin before walking away.

Arrested Development

The lack of development is not restricted to Velur alone. A recent study by the Madras School of Economics on inter-district disparity has identified Perambalur as the least developed among Tamil Nadu's 32 districts. It pegs the district's per capita income at ₹13,068 (based on the most recent 2006-07 data), which is less than a third of the richer Virudhunagar (₹46,143) and Coimbatore (₹44,684) districts. Perambalur's share in Tamil Nadu's gross state domestic product is a paltry 0.83 per cent.

The reasons are obvious. Though the district is agriculture-based, it is almost entirely rain-fed. There are no irrigation facilities to bring in water from the Cauvery river (about 50 km away) that flows in Tiruchirapalli, or store up rainwater. Thanks to repeated monsoon failures and its predominantly small farmers, the district's farm output has remained low. For instance, its rice output at 2,503 kg per hectare is the lowest in the state.

For industry, the district boasts of just two sugar mills, 80 small-scale industry (SSI) units and 1,400 micro-industries, including welding and fabrication units, for a population of 1.18 million. Unlike the adjacent Ariyalur district which is limestone-rich (and is home to over half a dozen cement plants), Perambalur is devoid of mineral wealth.

While the economic deprivation in Perambalur district is by no means unique and the phenomenon is endemic across the country, what stands out is that for long no effort was made to tap industrial investment by leveraging the district's proximity to Tiruchirapalli, a major town 50 km away. Recent efforts, though, by Raja and the state administration have yielded mixed results. The proposed ₹5,000-crore multi-product Special Economic Zone — a joint venture between the Tamil Nadu Industrial Development Corporation and GVK

"Lack of industrial jobs forces people to take up menial jobs... and this has kept them economically backward"

M. Vijayakumar, Perambalur's District Collector

A hopeful Muthusamy at the fair; Chidambaram and Karunakaran at Velur. They knew Raja's father well

Group — and an industrial estate for housing 100 SSI units are yet to take off, and the only bright spot is tyre major MRF's ₹900-crore new unit coming up along the national highway.

The district's lack of development has given Raja's political opponents a stick to flog him with. "In the last 15 years no attempt has been made to develop the district. Raja grew in stature and wealth but the people who elected him remained in poverty," says Dr M. Devarajan, a former MLA from Perambalur who is seeking an AIADMK ticket to contest the coming assembly elections. The last declared wealth of Raja stands at ₹1.95 crore.

Perambalur fares poorly on many development indicators: at 65.88 per cent its literacy rate is the lowest in the state; it has a high school dropout rate; and its urbanisation level is just 16.05 per cent. District Collector M. Vijayakumar attributes the high dropout rate to the low income of people. "The lack of industrial jobs forces dropouts to take up menial jobs in the district or outside. This has kept them economically backward," he adds.

"We are addressing the problem in a multi-pronged way. We are pushing for crop diversification to wean people away from rice cultivation and move into cash crops such as cotton, sugarcane, etc. We are working to eliminate school dropouts, industrialise the district and create employment," Vijayakumar says.

A recent two-day skills development and placement fair conducted jointly by the Confederation of Indian Industry and the state government in the district for school dropouts and diploma holders attracted over 7,000 applications. In contrast, a similar job fair in Ariyalur district drew just 700 applicants.

One of those who attended the Perambalur job fair was R. Muthusamy, a farmer from Keelapuliyur village in the district's east, who doubles up as a daily-wage painter to supplement his income; he had come to see if his son, an 8th standard dropout, would get a decent job.

In fact, Muthusamy shares a common past with Raja. His family, like Raja's, returned from Sri Lanka in the early 1960s. Raja's forefathers, like many other people in and around Tiruchirapalli, had emigrated to the island nation in the early 20th century to work in the coffee and tea plantations. They came to be called "plantation Tamils". However, they suffered a setback when Sri Lanka, soon after Independence, disenfranchised plantation Tamils and made them stateless. Many of them chose to return to India. Andimuthu was one of them and so was Muthusamy's father.

The similarity between the two ends there, though. While Raja has grown to become powerful and wealthy, Muthusamy has continued to remain at the other end of the social "spectrum". ◆

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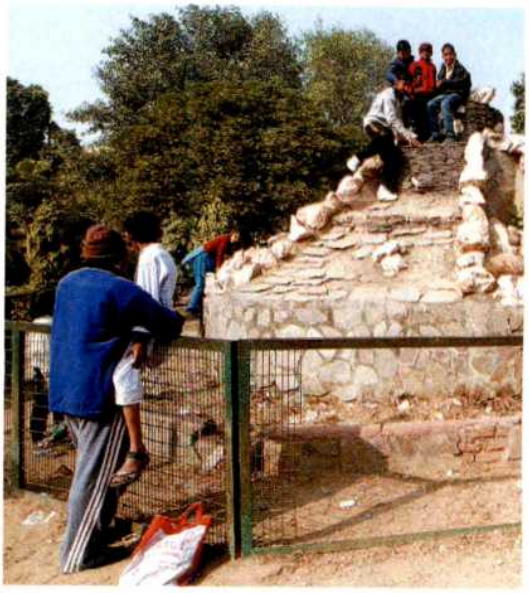
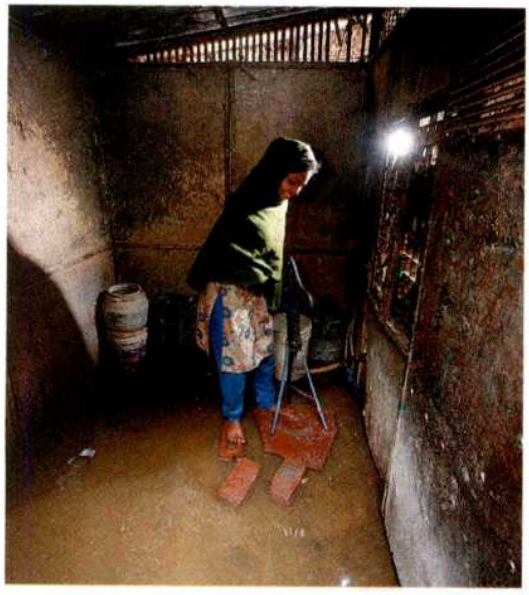
THE LAD FAILS TO DELIVER

The MP and MLA Local Area Development scheme comes under the scanner after Nitish Kumar scraps it in Bihar. BY K.R. BALASUBRAMANYAM





PHOTOGRAPHS BY SHEKHAR GHOSH

Delhi's Best and Brightest? Some installed streetlights, some fountains that don't work. But no one forgets to take credit. Who cares about a drinking water shortage or sewage-flooded toilets?

Last March, Maharashtra's then finance minister Sunil Tatkare found himself in a tight spot during the budget session. Members of the Legislative Assembly (MLAS) cut across party lines to demand a doubling of the annual constituency fund of ₹1 crore given to each of them. The pressure tactics worked. Despite the state's adverse fiscal situation, the minister raised the MLA Local Area Development, or LAD, fund to ₹1.5 crore. The extra bill: about ₹145 crore a year. The MLAS, however, were not happy.

Around the same time, in Delhi, the Planning Commission stonewalled a proposal from the Ministry of Statistics and Programme Implementation to raise the annual LAD fund for each Member of Parliament (MP) from ₹2 crore to ₹5 crore. The Commission cited an acute shortage of funds for even the flagship programmes of the United Progressive Alliance, or UPA, government at the Centre.

Last December, Bihar Chief Minister Nitish Kumar did the unthinkable: Soon after winning a second term in November's elections, he scrapped the MLA-LAD scheme. Bihar's legislators were getting ₹1 crore a year under the scheme. The entire political class sat up and took note.

An astute politician alive to the ground realities, Kumar was aware that the scheme had failed to yield the desired results. A month before Bihar's assembly elections, Satark Nagrik Sanghathan, a Delhi-based citizens' group, had released a report card on the spending pattern of the MLA-LAD scheme in several constituencies of the state. "People were not aware of what the funds were spent on. There was neither transparency nor any mechanism in spending," says Anjali Bhardwaj, Director of the Sanghathan. Her team used the Right to Information or RTI Act to get details about the end-use of MLA funds: it got details on only 100 of the 243 assembly constituencies. Even so, it took 10 months to squeeze out this information. It turned out that the MLAS had spent the money fully, but mostly on roads — even though the state Budget had set aside money for roads. Earlier studies had shown that 52 per cent of the assets created in Bihar through the MLA-LAD scheme were sub-standard, and 12 per cent were poor.

The LAD scheme was first introduced by the Union government for MPS through an executive order in December 1993. The states followed with their own schemes for legislators, with Haryana being an exception.

Over the years, the scheme has been in the news for all the wrong reasons. In 2005, a sting operation by a TV channel caught seven MPS demanding cuts for recommending development work. More recently, in 2009, Sakshi Maharaj, a Rajya Sabha member from Uttar Pradesh, released ₹25 lakh from his LAD fund to his own private college. Critics argue that the scheme is now better identified with graft than with spurring development in states.

Says Trilochan Sastry, Academic Dean of the Indian Institute of Management, Bangalore or IIM-B: "What Nitish Kumar did in Bihar is a step in the right direction. The Centre should also follow this." Sastry is also the founder of the Association of Democratic Reforms.

The Union government has released ₹22,700 crore under the MPLAD scheme so far. The Comptroller and Auditor General of India or CAG did an audit for 1997-2000 and found the work done to be sub-standard. The scheme had failed to meet its objectives, it said. CAG plans to release the audited reports for the last ten years during the Budget session.

Says Yamini Aiyar, Director of the Accountability Initiative at the Centre for Policy Research, Delhi: "Ironically, panchayats and municipalities are starved of funds to

Empowering the elected...

The centre and the states dole out big amounts to MPs and MLAs every year for asset creation in their constituencies.

Figures in ₹ crore

SANTOSH KUSHWAHA

... but LAD funds are often frittered away on wasteful expenditure

PLACE: **Delhi**

ASSEMBLY CONSTITUENCY: Malviya Nagar

PROJECT: Construction of 13 natural waterfalls

ALLOCATION: ₹**24.57** lakh

WHY IT IS A FAILURE: The people need drinking water, not decorative fountains

PLACE: **Jharkhand**

ASSEMBLY CONSTITUENCY: Bhawanathpur

PROJECT: MLA allocated ₹**15** lakh for construction of statues

WHY IT IS A FAILURE: Statues of political leaders are assets?

PLACE: **Delhi**

ASSEMBLY CONSTITUENCY: Mandawali

ISSUE: Low allocation of funds

WHY IT IS A FAILURE: The MLA allocated only ₹**1.4** crore of the ₹**6** crore available under the scheme in three years

Source: Satark Nagrik Sangathan, Delhi

perform their Constitutionally-assigned roles, while MPs enjoy the privilege of an uninterrupted yearly flow of funds to do the job of panchayats and municipalities."

Quite a few MPs are bitter critics of the LAD scheme. Veteran Parliamentarian and former Lok Sabha speaker Somnath Chatterjee describes it as "a sort of attempted bribery of the electorate by their elected representatives" (see *It's Bribing the Electorate*). Rajya Sabha member Rajeev Chandrasekhar, a former telecom entrepreneur, thinks that giving MPs or MLAs their own budgets is a bad idea despite its good intentions.

"It is another example of spending of the exchequer and taxpayers' money with no outcomes or accountability. Given the lack of a spending/outcome framework, MPLAD spending, like most government spending, tends to be arbitrary, political and very discretionary," says Chandrasekhar. Adds Basudeb Acharia of the Communist Party of India (Marxist): "The Left in principle opposes the scheme but we are offering it in West Bengal only because other states are doing it."

Critics also pan the scheme on grounds of propriety. "The MPs should make law, make policies, and not perform the role of the Executive," says Sastry. In 2002, the National Commission to Review the Working of the Constitution, headed by former Chief Justice of India M.N. Venkatachaliah, had favoured discontinuation of the MPLAD scheme. It had pointed out that the activities for which MPs were supposed to spend the LAD funds were already in the State List, and the 73rd and 74th Constitutional amendments required the local bodies to carry out most of these activities. In 2009, the second Administrative Reforms Commission, headed by Veerappa Moily, the present Law Minister, had also recommended the scheme's abolition.

There is, however, a view within civil society that the scheme can work with checks and balances. Satark Sanghathan's Bhardwaj says: "Our experience has shown that in some places where people had information about the availability of these funds, they were able to get their basic demands like drinking water or better roads met." In May 2010, a five-member bench of the Supreme Court declined to strike down the scheme, observing that it was perfectly Constitutional, but noted that "efforts must be made to make the regime more robust". The perception, nevertheless, is that the LAD scheme is a flop.

In recent times, Sonia Gandhi, the Congress President and UPA Chairperson, has been suggesting that chief ministers give up their discretionary powers of land allotment. Now, given the abysmal record of the LAD scheme, perhaps it's time for politicians to surrender their discretionary spending power as well. ◆

ADDITIONAL REPORTING BY KAKOLY CHATTERJEE

SOMNATH CHATTERJEE, Former Lok Sabha Speaker

"It's Bribing the Electorate"

I have always felt the MP funds were intended more to placate the MPs than for any benefit of the people. It does little beyond helping an MP increase his own popularity. Far more damaging, however, is that it throws the entire planning processes at the state and district level upside down. In fact, under the existing set-up, an MP can participate in the planning processes, make his point and get his projects implemented within the purview of the established planning process. Instead, he is allowed to handle the funds for his political advantage. As I have discovered, most MPs stay away from these meetings. The way some MPs suggest projects shows they are only meant to suit their own purposes. The operation of MP funds, clearly, has the entire planning processes in states in disarray. Now, there is even a demand for increasing the amount to ₹5 crore per MP, which is a lot of money.

There is also this tendency among MPs to spend the funds in places where they want to increase their popularity rather than where they are badly needed. The scheme thus becomes a propaganda tool for an MP while, at the same time, giving him an unfair advantage over his electoral opponents at the time of elections. There is no level playing field here. The 14th Lok Sabha was witness to allegations against some of the MPs misusing the funds leading to some of them being suspended.

I don't say all MPs are dishonest, but I don't want a single MP to be suspected of dishonesty on account of the MPLAD scheme. It only gives scope for corruption at an individual MP's level and creates suspicion in the minds of the people.

To my mind, the MP/MLA funds are nothing but a sort of attempted bribery of the electorate by their elected representatives.

I congratulate Nitish Kumar-ji: He has realised that the scheme is politically wrong and morally improper, and administering it creates a lot of problems.

As told to K.R. Balasubramanyam

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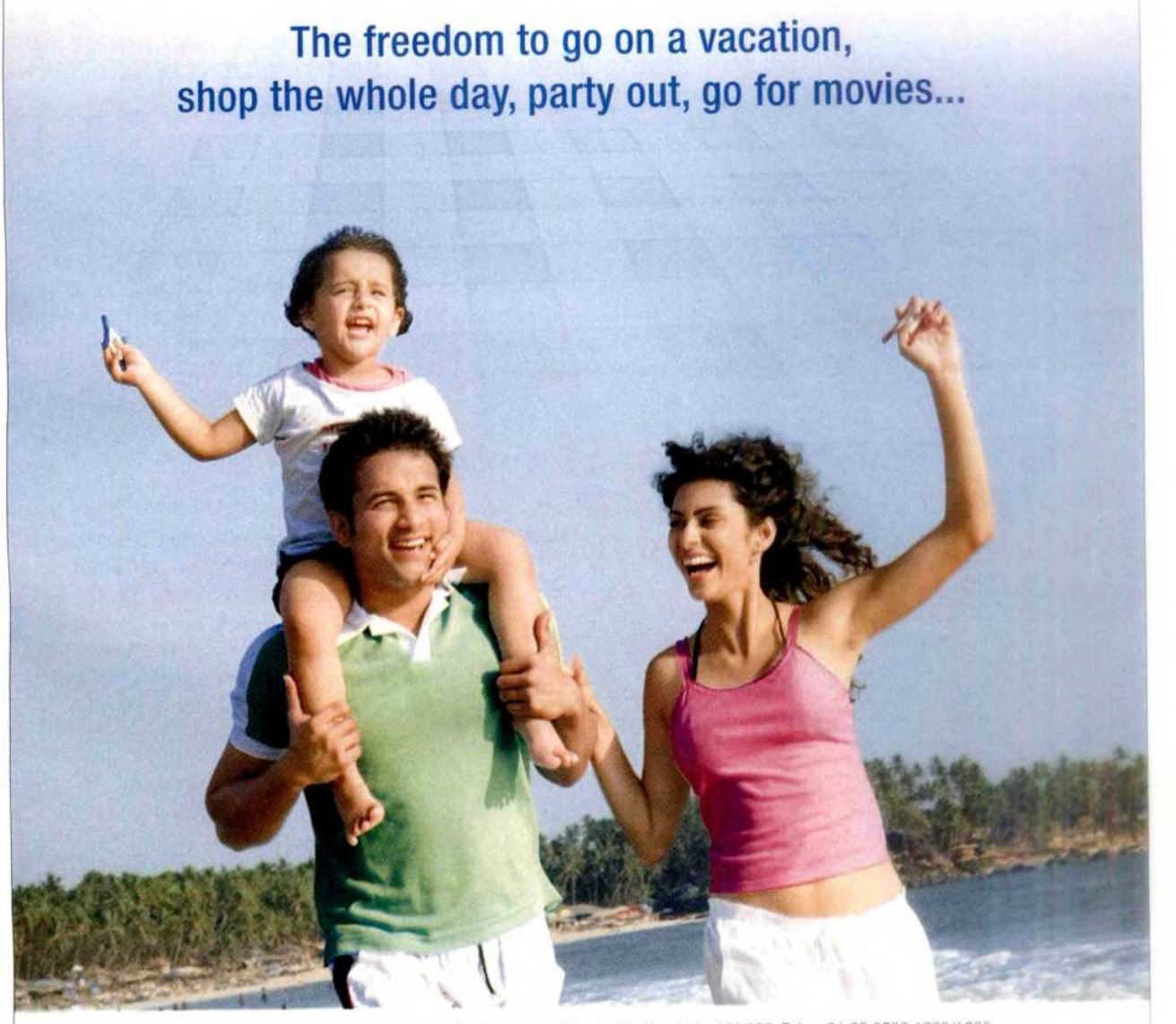

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Caught in a Logjam

As UPA-II finds itself in the midst of controversies and corruption charges, BT lists five pending Bills that need urgent attention and could save the face of the government. BY MANU KAUSHIK

Soon after its victory in the May 2009 general elections, the Congress-led United Progressive Alliance II announced a 100-day agenda to bring about governance, reforms and transparency, and revive the growth momentum. Among other things, there were 13 legislative Bills slated to be cleared in that period. Over 600 days have passed and of the 13, only one — Right to Education Bill, 2009 — has been passed. What happened to the others? Some of these, pending or lapsed, can have far-reaching impact on the economy, corporate sector and investors if passed in their present form.

1 Pension Fund Regulatory and Development Authority (PFRDA) Bill, 2005

STATUS: Lapsed in 2009 when the 14th Lok Sabha was dissolved

The PFRDA was set up in 2003 to develop and regulate a new pension system for post-retirement security for people in the unorganised and government sectors. The draft Bill provided for statutory powers to the PFRDA in 2005.

Since then, the Bill has been caught in the political cobweb. Although the PFRDA introduced the New Pension Scheme, or NPS, in 2009, the authority remains toothless. "Under the NPS, the PFRDA appointed fund managers to handle a large corpus. But it has no authority to punish them in case anything goes wrong. It has to move civil courts," says M.R. Madhavan, Head of Research at Delhi-based think tank PRS Legislative.

T.R. RAMACHANDRAN, MD and CEO, Aviva India

"Raising the FDI cap will help insurance industry generate much-needed capital"

SHEKHAR GHOSH

2 Land Acquisition (Amendment) Bill, 2007

STATUS: Lapsed in 2009 when the 14th Lok Sabha was dissolved

Following widespread protests against the acquisition of farm land for special economic zones, or SEZs, the government decided to introduce amendments to the Land Acquisition Act, 1894. The Bill could bring immense clarity for all the parties involved — the corporate sector, farmers or states. It redefines the very definition of public purpose. Unlike the previous Act, where the government had to acquire 100 per cent land for private projects if it served a public purpose, the amended Bill puts the onus on the corporate entity to acquire 70 per cent land for commercial projects while the state would help to acquire the remaining 30 per cent, for which again they have to pay highly competitive prices.

The Bill mandates that companies share 80 per cent of the capital gains with previous owners if they

sell the acquired land later. "But in case such land is sold after 20 or 30 years, tracing the original owners would be difficult," says Madhavan, adding, "The Act will discourage acquisition of land for profiteering and speculative purposes."

3 Insurance Laws (Amendment) Bill, 2008

STATUS: Pending before the Rajya Sabha since 2008

The draft raises the cap on foreign direct investment, or FDI, to 49 per cent from 26 per cent at present. It also allows players to raise tier-II capital (debt) in addition to the existing tier-I (equity) capital raising method. "The industry is in a nascent stage with the average age of private players around three years. Raising the FDI cap will help it generate the much-needed capital," says T.R. Ramachandran, CEO and MD, Aviva India.

Another important aspect includes more autonomy for the Insurance Regulatory Development Authority, or IRDA. The Bill also proposes that the minimum investment limit for health insurance companies be reduced from ₹100 crore to ₹50 crore. "It could become easy for private players to enter the rapidly expanding health insurance market," says Rajesh Sud, CEO & MD, Max New York Life.

4 Companies Bill, 2009

STATUS: Lapsed in 2009 when the 14th Lok Sabha was dissolved, re-introduced in the Lok Sabha in August 2009

The Bill, which seeks to replace a 55-year-old law, is probably among the longest-pending ones in Parliament. In 1993 and 1997, futile attempts were made to comprehensively revamp the law. In 2003, the Companies Amendment Bill was introduced in the Rajya Sabha and later withdrawn since a number of changes were necessitated in the draft proposal. It was re-introduced in the Lok Sabha in 2008 and lapsed in 2009. The latest draft envisages a modern legislation for the growth and regulation of the corporate sector, which has expanded from around 30,000 entities in 1956 to 8-lakh-plus now.

The present draft has fewer provisions (400) as compared to the Companies Bill, 1956 (600), and is easier to comprehend. Some of the changes include speedy incorporation process with detailed disclosures, greater responsibility for independent directors, and revision of the framework for regulation of insolvency, liquidation and winding up. In addition, there are provisions aimed at tightening trading regulations, but some of these are in conflict with the SEBI Act.

5 Forward Contracts (Regulation) Amendment Bill, 2010

STATUS: Draft pending before the Lok Sabha

The FCRA Bill, pending for more than 12 years, seeks to revamp the 59-year-old Act. The Bill gives more powers to the Forward Markets Commission, or FMC. It also permits trading in commodity options. The Bill proposes demutualisation of existing commodities bourses, setting up of a separate clearing corporation and provisioning for designating the Securities Appellate Tribunal, or SAT, as the appellate tribunal. ◆

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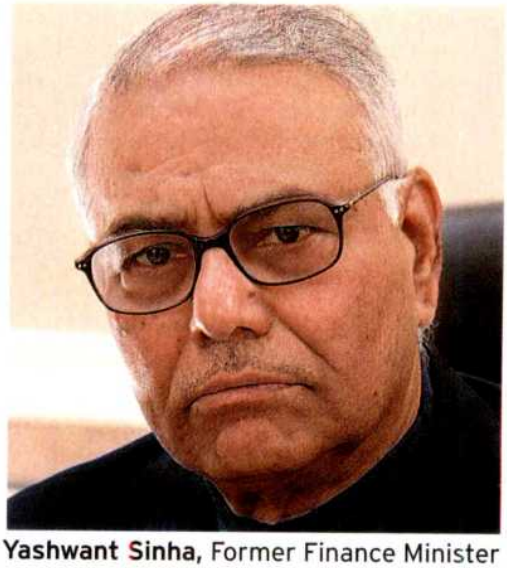
FM TO FM

Yashwant Sinha, initiator of some far-reaching reforms in the past, has some advice for the UPA's Pranab Mukherjee.

BY PUJA MEHRA



Yashwant Sinha, Former Finance Minister

The cover of *Business Today*'s issue dated March 7-21, 2000, had the then finance minister, Yashwant Sinha, biting a bullet. Defending his bold-but-badly-packaged budget, Sinha had told *BT*: "We will bite the bullet." Sinha has presented six budgets, including an interim one, in two stints as finance minister. These budgets had a fair share of bold proposals, even though some failed to muster political backing and so earned Sinha the sobriquet of Rollback Finance Minister.

He is credited with lowering real interest rates, introducing tax deduction for interest on housing loans, making key changes in telecom policy, helping fund the National Highways Authority of India and sowing the seeds for the deregulation of fuel prices.

Sinha also ended the 53-year tradition of a 5 p.m. budget, a practice the British had started to bridge the time difference with their Parliament.

"Bold" pretty much sums up the expectation India and its observers have of current Finance Minister Pranab

Mukherjee. The economy has gotten over the scare of the 2008 global financial downturn, but persistently high inflation and rapidly rising interest rates are hurting growth. The sudden rash of frauds and corruption cases has not helped sentiment. Nor has the unexplained delay over some key reforms.

The Union government's fiscal situation — and the finance ministry's attitude so far in addressing it — are not very promising.

So when BT decided to prepare a Dream Budget 2011, Sinha became the obvious choice as BT Finance Minister. Aided by a team of experts (see *The Feeling is This Budget Might be More of the Same*), Sinha worked out an eight-point action plan for a Dream Budget 2011 (see *The Sinha Formula*).

One of the immediate concerns the budget must address, Sinha says, is taking growth back to over 9 per cent. The pressing issues of inflation, interest rates, savings and investment, and fiscal consolidation, says Sinha, "... will have to be taken up by the finance minister and squarely addressed". He emphasised equity and growth, which unless addressed, would produce an Egypt-like situation. "I am saying this with a sense of responsibility because I represent a constituency in the Lok Sabha which is one of the worst-affected areas by the Left-wing extremist menace," he says. Sinha's Dream Budget would:

THE SINHA FORMULA

Build the budget around solutions to four deficits and an equal number of excesses troubling the economy

ATTACK THE DEFICITS

Fiscal
Social justice
Economic reforms
Governance

CONTROL THE EXCESSES

Corruption
Wasteful expenditure
Inflation
Interest rates

Push Growth with Equity: For which the budget must reduce the plethora of development schemes run by the Government of India to a maximum of ten. (The Centre and the Planning Commission have better things to do than run a sheep farm in Jharkhand, he says.) The National Democratic Alliance or NDA government that Sinha served had started a village roads programme branded the Pradhan Mantri Gram Sadak Yojana, which, Sinha claims, is a huge success. "We ensured the money for this scheme is not wasted and every road is closely monitored from the beginning to the end. Today, in the countryside, quality roads have lasted for more than 10 years and are much better than the state roads," he says.

Curb Food Inflation: First, fix the distribution chain. The state agricultural marketing boards levy unreasonable charges at the *mandis* or markets where farmers bring their produce. The states should not hinder movement of agricultural produce. "There are inter-district restrictions, there are inter-state restrictions — let India be a common market," says Sinha. Then, go for a Pradhan Mantri Sichai (irrigation) Yojana, *à la* Pradhan Mantri Gram Sadak Yojana. He also points out that the government must revive extension services in agriculture, which have become defunct.

Check Corruption: This will need the government to empower elected panchayats and other agencies at the grassroots level in a transparent and accountable manner, and apply a carrot-and-stick policy as needed. "Apply the stick when you find corruption and give the carrot when you find that they are doing their job honestly," Sinha says.

Lower the Fiscal Deficit: Go for tax reform. "There is no reason why the finance minister should not pick up what he considers to be worthwhile ideas in the Direct Tax Code and include it in the budget instead of waiting for the DTC Bill to pass muster in Parliament," Sinha says. On Goods & Services Tax, take a giant step by announcing a central GST and letting the states follow. "We should wait for the day when the two GSTs could be merged," he suggests. Amend the Constitution to allow for the transfer of some services to the states. This way, GST will become meaningful at the state level.

On the expenditure side, go for a smart card scheme to target beneficiaries of subsidies effectively. "I remember how on the expenditure reform side, we (the NDA government of 2000-2004) decided to cut down on many posts. I remember how I raised the rents of government employees all over the country. I remember how I stopped their leave travel concession," Sinha says. In fact, he says these highly unpopular steps cost him and his party the 2004 elections. "But I don't regret it — I don't regret it for a moment because I did right by the country."

The bottom line is very simple, says Sinha. "A finance minister and a prime minister need courage when they are framing the budget. If they can't face up to these challenges, then they should not be there, they should be somewhere else," he says. ◆

The Feeling is This Budget Might be More of the Same

SAPTARSHI BISWAS/www.indiatodayimages.com

The Panel (left to right): Puja Mehra, Sanjay Kumar Agarwal, Kirit Parikh, Yashwant Sinha, Rajeeva Ratna Shah and Chaitanya Kalbag

Former finance minister **YASHWANT SINHA** *and four experts with a wealth of expertise got together at our office on a Sunday for a pow-wow moderated by* **BUSINESS TODAY**'S **CHAITANYA KALBAG** and **PUJA MEHRA.** *Their mission: to work out the perfect budget three weeks ahead of the Union Budget for 2011-12. Edited excerpts:*

Sinha: A budget addresses the immediate economic context. And as a budget is an annual event, it will come somewhere in the Five-Year Plan. Therefore, there is a medium-term perspective also in it. I am not talking about long term. This year, there are some urgent issues like inflation, interest rates, savings and investment, and fiscal consolidation. These will have to be taken up by the finance minister and squarely addressed in the budget.

Parikh: Clearly, the primary task of this budget would be to ensure that something is done about inflation, that we do something about putting us back on the growth

path and for that we need to recognise what are the problems bothering us. Oil price has gone high so it will be very difficult to control some of the inflationary pressures that we are facing now. On food inflation, as far as cereals are concerned, we should have no problem. We have lots of stocks and we should be able to keep cereal prices in control. But fruits, vegetables and edible oils... these are very difficult to control. You can import, increase availability, you can subsidise.

Even the core inflation is around 5 per cent. One way to reduce that will be to let the rupee appreciate a little bit and that will reduce the cost of imports and then you will have a lower core-price inflation index. Also, the ministerial pronouncements should not feed into inflationary expectations...when you say onion prices are going to remain high for a month — they are bound to remain high for a month. That is something the government must avoid.

Shah: Don't forget that this time food inflation is coming at a point of time when you are going to register a 6.5 per cent rate of growth in agricultural output. So this is a very unusual situation.

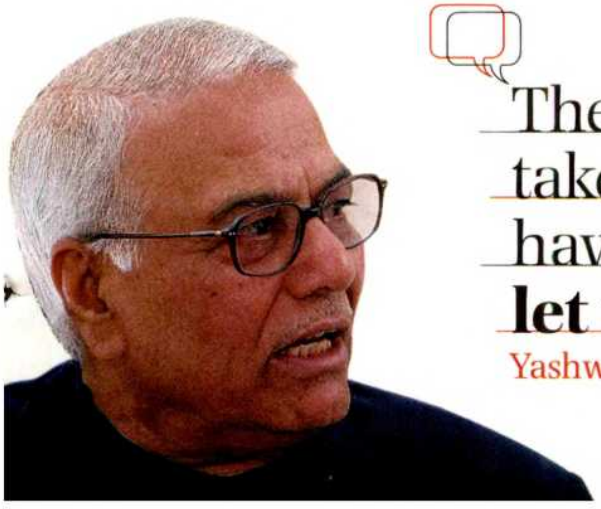
Fiscal consolidation is going to be important. After achieving a fiscal deficit level of 3 per cent, in 2008-09 we had to go up to 7.8 per cent. In 2009-10, we came to 6.9 per cent, in 2010-11 we expect it to be 5.5 per cent. And 2011-12 and 2012-13 are 4.8 and 4.1 per cent. If we are going to achieve 5.5 per cent this year by using spectrum receipts, that means we will only be doing a window dressing because structurally we have not adjusted the economy. We really need to ensure that whatever we do by application of spectrum receipts is over and above 5.5 per cent. Then we would have really done our bit.

Parikh: For fiscal consolidation, we need to really rationalise a whole lot of subsidies and programmes for *aam aadmi* and inclusive growth that we have. Most of them do not deliver results at the ground level to the beneficiaries intended. It is not impossible to do that, there are many ways... I have been recommending employment guarantee schemes for decades, but I have always recommended them in the past as a substitute for PDS (Public Distribution System), not as a supplement. We introduce one scheme, but we do not discontinue any other scheme.

Shah: I think the social inclusion programmes could be one vertical around NREGA, with PDS and skill development also attached to it. I don't see why the NREGA design should limit itself to creation of assets only. Why not link it up to skill development? Another vertical could be related to Sarva Shiksha Abhiyan and education, and one could be health. Between these three verticals, you could take care of most of the problems of social inclusion.

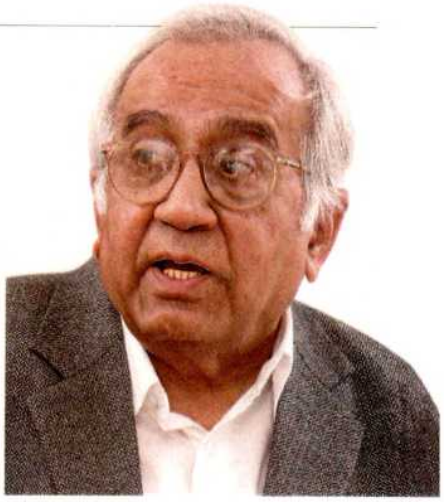
If you look at basic plan expenditure side, I would not advocate reduction of plan expenditure. But I do feel there is a very large area where funds being provided to the excluded sections of the society, for purposes of social equity, are being leaked out to intermediaries, which is totally undesirable.

If we don't plug that, there is no point in going on putting more funds through such a big, leaking pipe, because then we are not doing anything to ameliorate effectively the conditions of the poor. If you look at the current year's budget, I think the programmes relating to social inclusion accounted for about 37 per cent of the total outlay. About 25 per cent of the outlay went to rural infrastructure and 21 per cent to other infrastructure. These figures speak for themselves. The outlay on social inclusion, 37 per cent, comes to around ₹1.37 lakh crore. And if ₹1.37 lakh crore is going to be delivered through a leaking pipe then it's absolutely pointless to increase the outlay of NREGA from ₹40,000 crore to ₹64,000 crore. Technology today can help us deliver in a much more pointed manner. The UID programme has the potential of becoming a very accurate delivery conduit for all anti-poverty programmes but the government is moving ahead at a very slow pace on it.



The finance minister can take a giant step: He can have a **central GST... and let the states follow"**

Yashwant Sinha, Former finance minister



"The primary task of this budget would be to ensure **that something is done about inflation**"

Kirit Parikh was on Economic Advisory Councils of five prime ministers

Parikh: To attack subsidies, there is really good scope for deregulating oil prices. The whole idea that oil price increase will increase inflation — yes, in a very immediate short run, may be a little bit of inflationary impact will be there. But over a medium term, the inflationary impact will be actually smaller than what current policies have. Because today, you are financing the deficit —the difference between the cost of import and the price at which it is sold to the consumers— through some form or other and the economy is bearing that cost. And if it is increasing your fiscal deficit, therefore, it is anyway feeding into your inflation a few months down the line. So why not really liberalise or go to market determined prices for diesel, certainly at this state?

Kerosene, I think yes. There is a strong case for subsidising kerosene for at least the poor and we can achieve proper targeting through a smart card system. I would say that the same thing should be done for LPG — target it effectively with a smart card system for the poor. Once you do that, you can reduce significantly the amount of burden that you have.

As far as fertiliser subsidy is concerned, one could immediately do the same kind of thing. Even if you give every farmer 60 kg of fertiliser at subsidised prices, current prices, and let them buy the remaining, you will cover 80 per cent of the farmers in the country for their full needs of fertiliser... And many of the poor farmers will have a surplus to sell to others so they will be the beneficiaries. And your fertiliser subsidy can be reduced by certainly one-half or two-thirds by this kind of measure.

So there is scope available for reducing many of the subsidies if you want to rationalise them. You need to have a mechanism by which there is only one market price, so that incentive to divert goes away. The PDS should also be done the same way.

Currently, I think the investment in manufacturing and other sectors is slowing down not because there is not enough money available. In fact, banks are holding in cash reserves much more money above the stipulated level. The real problem comes from the uncertainty of what the interest rates will be, what the long-term scenario will be. That is preventing people from investing.

My feeling is also that this business of raising interest rates is not going to make any impact ... how would raising interest rates affect vegetable prices and anyway it is an instrument that takes time before it becomes effective.

As far as I am concerned, I think the budget should push GST [goods & services tax] as fast as possible.

"If we achieve a fiscal deficit of 5.5 per cent by using spectrum receipts **it will be window dressing**"

Rajeeva Ratna Shah,
Former member of Planning Commission

Sinha: The finance minister can take a giant step and he can have a central GST. He can say, this is the central GST, and I have one tax for services, one tax for production, that's excise tax, and merge the two and say this is my GST, and let the states follow. So you tell the states that okay, we fix our rate of GST, and you fix your rate of GST. We should wait for the day when the two GSTs could be merged.

This much is already on the table but the UPA created apprehensions about the Union finance minister heading a GST council and appropriating powers which do not belong to the Centre. There is

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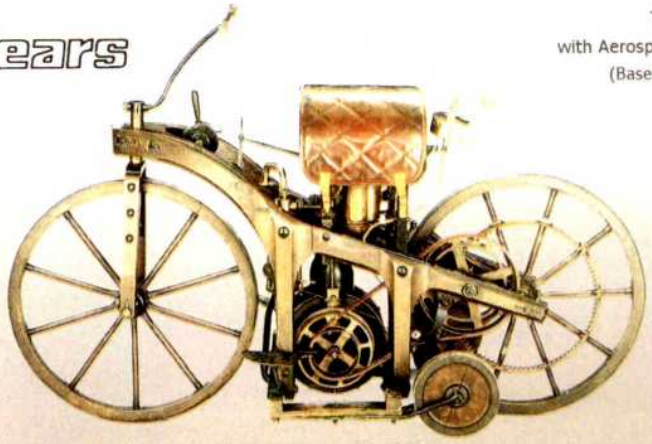

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no need for a GST council. The empowered committee of state finance ministers implemented the Value Added Tax successfully. Let them implement the state GST equally successfully. So instead of creating doubts in their minds that the Centre is taking away their financial powers, let the Constitution be amended only partially, in the sense that some services should be transferred to the states so that GST becomes meaningful at the state level. And the Centre retains its power. The Centre needs to abolish the central sales tax and empower the states to levy taxes on services.

Dharkar: While there may not be much scope to reduce the tax rates, there is a need to widen the corporate taxpayer base. Only around 1,000 companies pay 80 per cent of the corporate tax and around half the companies do not file returns at all. Measures are needed to improve the tax administration and make it fair and transparent. While the plans to invest in infrastructure, both medium term and short term, drawn up by the government are ambitious, what is lacking is proper implementation. Less than half the targets are achieved. Steps should be taken to improve execution of projects. This needs clear policies for land acquisition and environment. The rupee should be made fully convertible. This will help Indian companies compete globally on an even footing. While taxing income from interest, allowance should be given for inflation. This will encourage savings.

"People paying more tax are being asked for more information...**those paying less are not being questioned"**

Sanjay Kumar Agarwal, Institute of Chartered Accountants of India

Agarwal: It is a well-known thing that when you reduce the tax burden then people will come voluntarily and pay the tax. One concern is that people paying more tax are being asked for more and more information by the (Income Tax) department but those who are paying very low tax are not being questioned. The second aspect is permanent sources of income: We need to concentrate more on GST. We need to work very fast because GST provides a cascading effect which can also address inflation.

Parikh: I think there is a fair degree of consensus here that GST should be pushed, agriculture marketing reforms should be done, expenditure reforms and targeted delivery, and reducing certain subsidies, rationalise fuel prices, devolution of power, including financial power, to panchayat level for implementing various schemes. Give a strong signal to reduce uncertainty that people face about medium-term government policies. Signal a determination to deal with corruption in an effective way, and inflation. Clarify land policies so that acquisition and other things become easier and less controversial.

Sinha: I think the general feeling is it might be more of the same. I am prepared to be pleasantly surprised by Pranab Mukherjee, if he could make some radical departure from past practice. ◆

For the full transcript and podcast, visit businesstoday.in/panel

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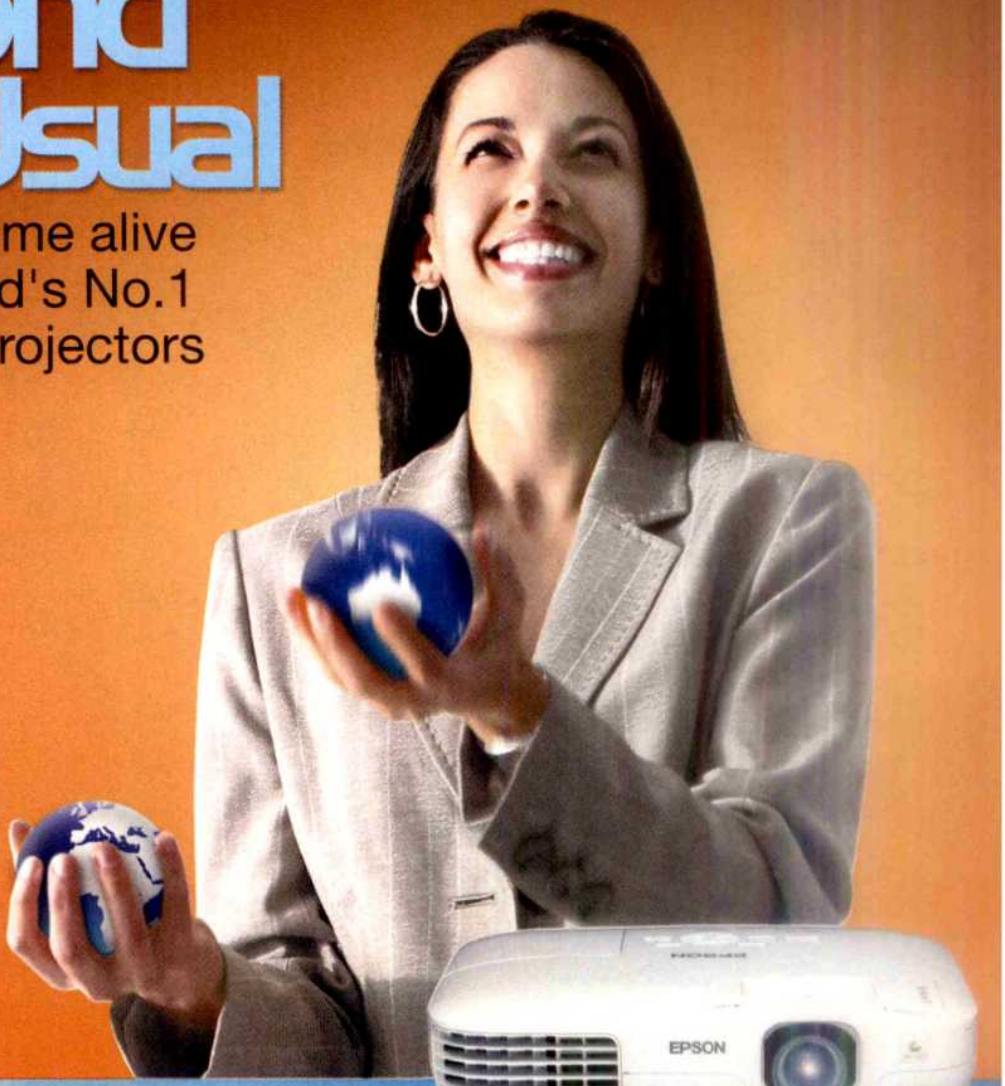

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See-saw Sensex

Global fund flows and domestic economic concerns risk dragging a volatile equity market further into negative territory

BY RAJIV BHUVA

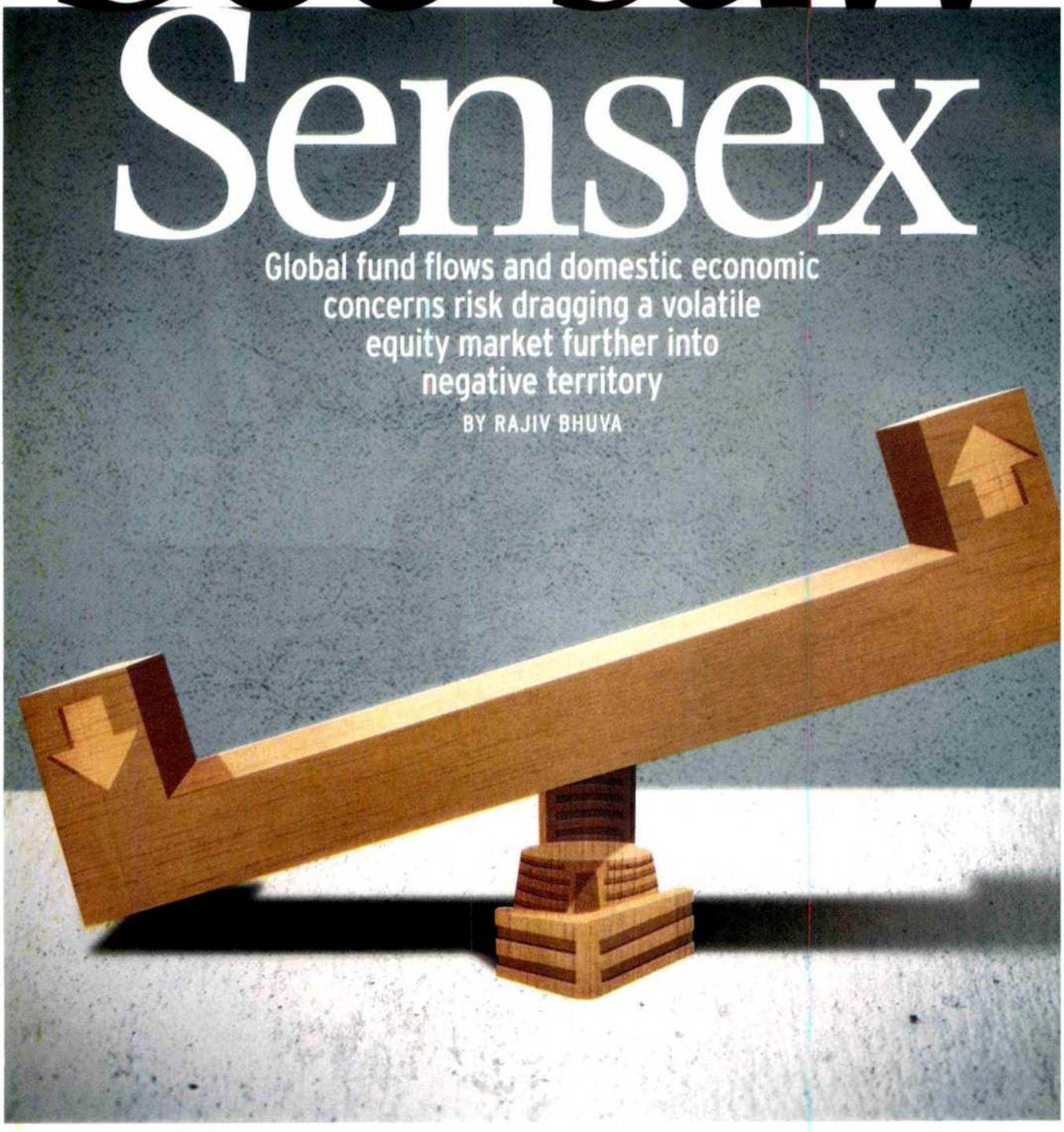


ILLUSTRATION BY SANTOSH

John Seth says he saw it coming some seven months ago. It was the Independence Day weekend in the US and the New York asset manager saw malls full of shoppers. They were flashing plastic freely and all around there were little signs that the world's largest economy was still hurting from a recession that was the worst in seven decades.

Next morning, July 5, 2010, Monday, 41-year-old Seth, who runs portfolios for business family offices and rich individuals, started sending advisories to his clients: with the US economy recovering, it was time to move out money from emerging markets back to developed markets. The chances of the US going into a widely feared double-dip recession were ebbing and from a risk-return perspective, the equity markets there were turning attractive again.

Okay, this story is apocryphal and Seth's character is made up but it will find several parallels in the global fund manager fraternity. A community that has, over the past few months, been moving its funds under management from emerging markets, characterised by high inflation, to developed markets which it is more familiar and comfortable with.

A call taken in summer 2010 to invest in the US would have been one of perfect timing. That economy grew 2.6 per cent in the July-September quarter, up from a feeble 1.7 per cent in the preceding three months, and ended the December quarter with a 3.5 per cent growth. Since July 5, the US markets, measured by the Standard & Poor's 500 Index, have risen nearly 30 per cent.

Reflecting this turn, the Indian bourses have contracted more than one-sixth from a peak in November. Other emerging markets such as Indonesia, Brazil and China (see *Spreading Panic*) have also lost ground. And, if the predictions hold, the year will be choppy with more and more fund managers on the street coming around to the view that the Bombay Stock Exchange's benchmark index, Sensex, will end flat this year, if not in the negative. "As the US economic recovery takes hold, there is the potential for foreign investor inflows (into India) to slow," says Parul Saini, Executive Director at Singapore-based RBS Asia Securities.

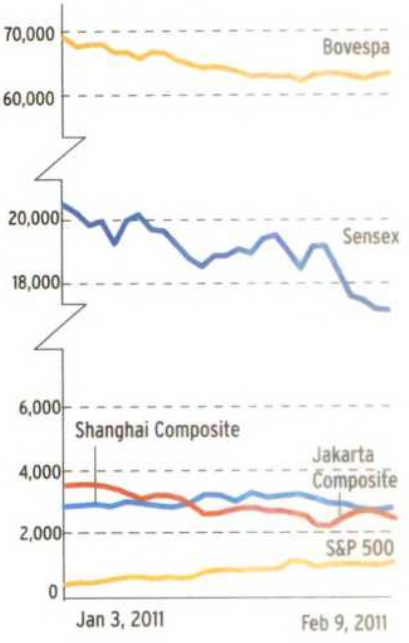
Other markets such as Russia, the Gulf countries and Taiwan have attracted investor interest away from India and China on the back of a strengthening commodity cycle, especially for crude oil, and a strong outlook for exports. "Commodity-oriented economies are benefiting," says Toral Munshi, Head of Research at Credit Suisse Wealth Management.

Vulnerable is the word to describe Indian markets. In 2011, as on February 9, foreign institutional investors, or FIIs, had sold shares worth $1.45 billion in the secondary market, setting off a 14 per cent fall in the Sensex, in stark contrast to 2010, when the index surged over 17 per cent. "Though domestic institutional investors (only mutual funds) have turned net buyers, we believe markets are likely to fall further if FIIs pull out $4-5 billion," Suresh Mahadevan, an analyst at UBS Securities India, wrote to clients.

At least for the immediate term, this trend may not change with developed markets continuing to outperform emerging markets. "The serial correlation of economic revi-

Spreading Panic

Most emerging markets have plunged even as US markets stage a smart recovery



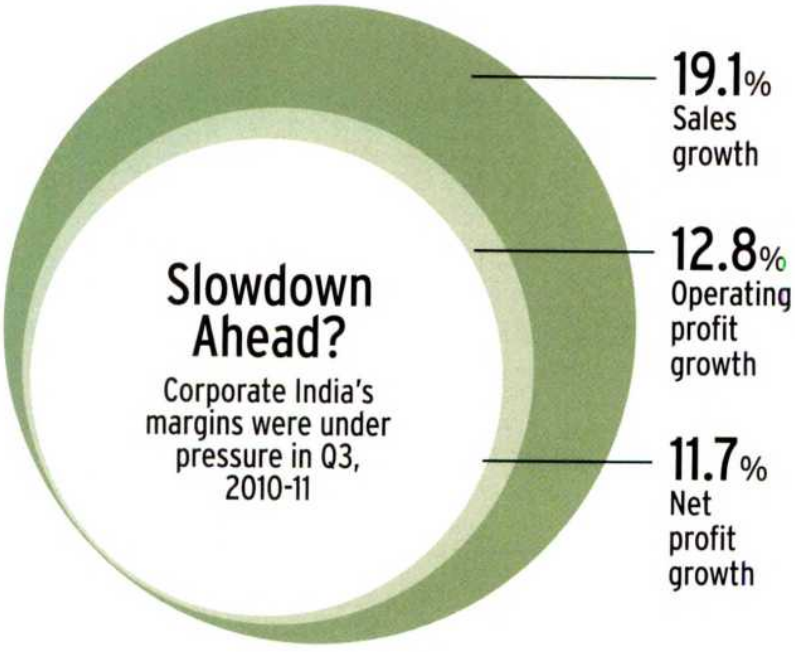
The Faultlines

The torrent of bad news has sent the bulls scurrying for cover...

- Emerging economies are struggling with high inflation and interest rates
- FII flows are dwindling; funds getting diverted to the US as its economy recovers

... and it won't be smooth sailing in 2011

- Expect earnings downgrades by analysts as corporate margins come under pressure
- Some analysts feel a correction was inevitable as valuations were stretched



sions," says Hong Kong-based Adrian Mowat, Chief Asian and Emerging Market Equity Strategist at JP Morgan, "argues for a continuation of global cyclical and developed markets' outperformance."

Another long-term argument in favour of emerging versus developed market equities has been the strength of inflows into emerging market funds relative to the collapse of flows into developed market funds over the past few years. In the first three quarters of 2010, emerging market equity funds attracted cumulative inflows of $52.4 billion compared to developed market outflows — yes, outflows — of $79.5 billion, shows data from a Citigroup report.

In the fourth quarter, however, developed market funds finally began to catch up with inflows of $31.4 billion while emerging market funds continue robustly with inflows of $43.2 billion. "While the volume of long-term flows into emerging market funds has been a significant support for the asset class, there is also evidence of a recent shift in favour of developed market funds, which has coincided with the outperformance of developed markets," wrote Geoffrey Dennis, an Emerging Markets Strategist with Citigroup, in a late January report.

It is not just global fund flows that are playing truant with Indian markets. There are worries of a rot internally, too. Blame macro headwinds like high fiscal deficit and stubborn inflation on one side. On the other, there are looming concerns of higher commodity prices and climbing interest rates which will eat into corporate profitability in the coming quarters.

Add to this the political flux in New Delhi as a Union government, buffeted by corruption scandals, prepares for a budget session of Parliament that promises to be stormy and it is clear why investors are underweight on India. "The markets may continue to remain weak in the coming months as FIIs could emerge as bigger net sellers in the coming weeks leading up to the Budget," believes UBS's Mahadevan.

That is bad news for those stocks singed in the market meltdown. Stocks of Reliance ADAG companies — Reliance Communications and Reliance Capital have almost halved from their recent peak in November 2010 – have been particularly badly battered and even bluechips such as Larsen & Toubro, State Bank of India, Maruti Suzuki and Bajaj Auto have shed more than 20 per cent in value.

After the current round of correction, Indian market valuations are close to long-term average of around 15 times one-year forward price-to-earnings multiple, or PE, down from around 18 last year. Over the next three to four months, reckons Jyotivardhan Jaipuria, Head of Research, India, at DSP Merrill Lynch, the markets could even dip below the long-term average. He expects the Sensex to be flat or at best grow 3 to 4 per cent by 2011 end.

For Siddhartha Sanyal, Chief India Economist at Barclays Capital, the risk is whether corporate India can meet the earning expectations. "Possibility of earning downgrades is the key risk in this context," he says. "In the event of earning downgrades, if any, equity market valuations will start looking stretched."

In this light, a close look at cor-

> "The serial correlation of economic revisions argues for a continuation **of global cyclical and developed markets' outperformance"**
>
> **ADRIAN MOWAT,** Chief Asian and Emerging Market Equity Strategist, JP Morgan

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However, the Fund Manager may invest in any other scheme of a mutual fund registered with SEBI, which invest predominantly in the money market securities. **Load Structure:** (for investments made during NFO and Ongoing offer period) **Entry Load** - Nil. **Exit Load** - 2%- If redeemed or switched out on or before completion of 1 year from the date of allotment of units, Nil thereafter. **Terms of issue and mode of sale and redemption of units:** The units are available at Rs. 10/- per unit during NFO & thereafter at applicable NAV based prices. The Scheme will offer for Subscription/ Switch-in and Redemption / Switch-out of Units on every Business Day on an ongoing basis, within five business days of allotment. The redemption or repurchase proceeds shall be dispatched to the unitholders within 10 Business Days from the date of redemption or repurchase. **Investor benefits and general services offered:** The Scheme offers Systematic Investment Plan, Auto Switch facility and Online Transactions during the NFO period. The NAV of Scheme shall be published on a daily basis by the Mutual Fund at least in two daily newspapers and will also uploaded on the AMFI site www.amfiindia.com and Reliance Mutual Fund site i.e. www.reliancemutual.com. **RGETF is an open-ended Gold Exchange Traded Fund that tracks the domestic prices of gold through investments in physical Gold.)** The investment objective is to seek to provide returns that closely correspond to returns provided by price of gold through investment in physical Gold (and Gold related securities as permitted by Regulators from time to time). However, the performance of the scheme may differ from that of the domestic prices of Gold due to expenses and or other related factors. **Asset Allocation Pattern:** Physical Gold or Gold Related Instruments as permitted by regulators from time to time - 90 to 100%, Money Market instruments, Bonds, Debentures, Government Securities including T-Bills, Securitised Debt & other debt securities as permitted by regulators from time to time - 0 to 10%. **Load Structure** - Entry Load & Exit Load - Nil. **Terms of Issue** - As the units of the scheme are listed on the Exchange, subsequent buying or selling (trading) by Unit holders can be made from the secondary market on all trading days. The minimum number of Units that can be bought or sold on the exchange is 1 (one) unit. **Statutory Details:** Reliance Mutual Fund has been constituted as a trust in accordance with the provisions of the Indian Trusts Act, 1882. **Sponsor:** Reliance Capital Limited. **Trustee:** Reliance Capital Trustee Company Limited. **Investment Manager:** Reliance Capital Asset Management Limited (Registered Office of Trustee & Investment Manager: "Reliance House" Nr. Mardia Plaza, Off. C.G. Road, Ahmedabad 380 006). The Sponsor, the Trustee and the Investment Manager are incorporated under the Companies Act 1956. 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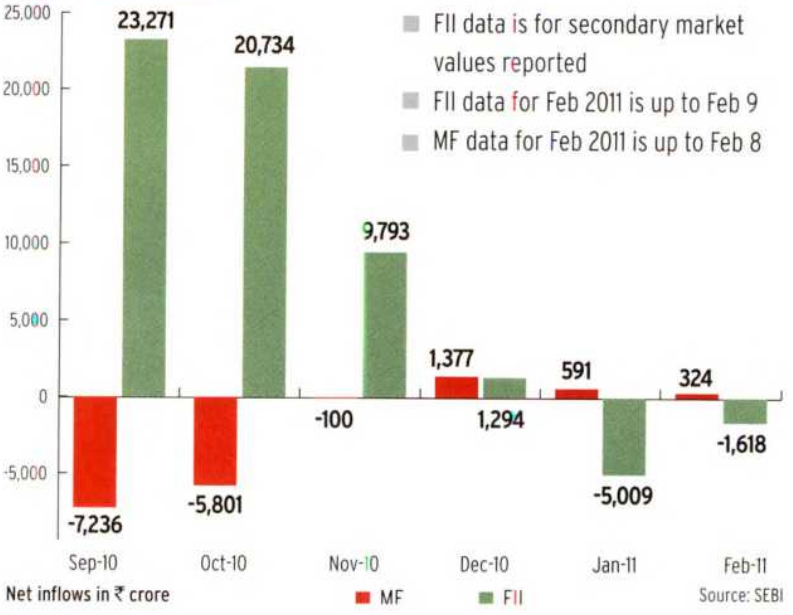
The Mutual Fund is not assuring that it will make periodical dividend distributions, though it has every intention of doing so. All dividend distributions are subject to the availability of distributable surplus in the Scheme. The NAV of the Scheme may be affected, interalia, by changes in the market conditions, interest rates, trading volumes, settlement periods and transfer procedures. Being a Fund of Fund Scheme, it may be noted that the investors are bearing the risk and the recurring expenses of RGETF also. For detailed risk factors, please refer to the Scheme Information Document & Key Information Memorandum, which is available at all the DISC, Distributors and www.reliancemutual.com. Investors can also call at our call centre 1800-300-11111 (toll free) for more details. **Please read the Scheme Information Document and Statement of Additional Information carefully before investing.**

porate earnings signals looming danger. BT analysed 275 companies out of the BSE 500 index that have announced their financial results for the quarter ended December 2010 using data from the Centre for Monitoring Indian Economy. These 275 companies, which do not include banks and oil companies, have reported a year-on-year income growth of 19.1 per cent. But what is worrying is the astronomical growth in the raw material, wages and interest expenses at 20.5 per cent, 22 per cent and 19.9 per cent, respectively. As a result, growth in operating and net profit is 12.8 per cent and 11.7 per cent, respectively — lagging sales growth significantly.

"Margins are already under pressure. Markets are reacting ahead of any derating in earnings," says Harendra Kumar, Head, Institutional Equities and Global Research, Elara Capital, a London-headquartered investment bank. While Kumar expects the Sensex to come down to 15,500-16,000 in the short term, he believes that from the third quarter of the financial year 2011-12, markets will bounce back. UBS, too, sees support at the 15,000-levels for the Sensex even at a lower earnings growth of 12.5 per cent.

FIIs Bailout



During 2010, India's valuations were costliest among Brazil, Russia, India and China, or BRIC, economies but investors are suddenly posed with the question as to why India deserves a valuation premium, says Jagannadham Thunuguntla, Head of Equities at New Delhi-based SMC Capital. Further, with investments and industrial output moderating (see *India Slowing*, BT, February 20 issue), the original hypothesis of the India growth story, too, also faces a big question mark. "The perception of the second fastest growing economy is currently taking a beating," says Raamdeo Agrawal, Joint Managing Director, Motilal Oswal Financial Services.

> "The perception of the second fastest growing economy **is currently taking a beating"**
>
> **RAAMDEO AGRAWAL,** Joint MD, Motilal Oswal Financial Services

Even so, all is not gloomy out there. Global portfolios are still under invested in emerging markets and India, says offshore fund manager with a domestic mutual fund on condition of anonymity. In the current bout of volatility, India has underperformed other emerging markets by around 6 per cent. "This makes long-term investing sensible at the current juncture," he says.

There is also a visible shift on the domestic investors' front. Those who were sitting on the fence through 2010 will come in now. "This will help in cushioning the downfall," says Navneet Munot, Chief Investment Officer of SBI Mutual Fund. In 2010, mutual funds were net sellers in 10 of the 12 months, registering a net withdrawal of ₹27,831 crore. Against this, in 2011 up to February 8, mutual funds were net buyers with investment of ₹915 crore. Credit Suisse's Munshi also expects support from insurance companies in the next two months.

That may be balm for mauled bullish investors in India but the writing on the wall is clear: the bears have logged in and will call the shots for some time to come. ◆

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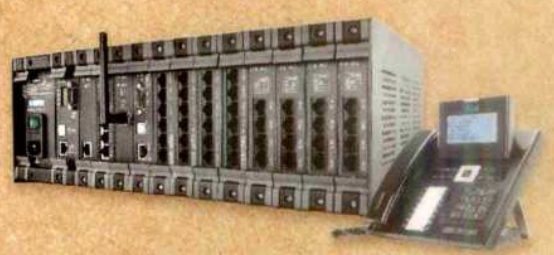

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The Small Big Market

Indian stock markets are still shallow, with power concentrated with a few brokerages on Dalal Street

BY ANAND ADHIKARI

ILLUSTRATION BY SANTOSH

At the peak of the market frenzy in early 2008, New Delhi-based stock broker Sanjay Agrawal was actually thinking of shutting shop. It was a tough call for the 44-year-old Agrawal who was part of the first lot of first-generation stock brokers awarded a broking licence by the newly set-up National Stock Exchange, or NSE, in the mid-1990s.

Agrawal had launched his broking outfit, Mani Stock Brokers, with half a dozen employees at the bustling Nehru Place complex in the capital hoping for a big payback from retail broking. He paid ₹50 lakh for the membership but found the going tough. "The margins were too low to sustain the business," recalls Agrawal. Fortuitously, he punched his last order on the NSE and folded up operations just three months before the Lehman Brothers collapse in September 2008. That belly-up sent the global markets into a freefall, dealing a body blow to the broking business in India. Agrawal did not exit the markets completely though. He soon teamed up with leading Mumbai-based broking house Motilal Oswal Securities, where he is a director now, and, today, considers himself lucky for being part of a bigger broking franchise.

Agrawal is among the growing tribe of brokers who are finding the business unsustainable, hit by a double whammy of falling margins, and high people and infrastructure costs. Today, brokerage rates are as low as 5 to 10 paisa per ₹100 trade done, hammered down by growing competition among the players, and rapid scaling up is critical to stay afloat. The option for many small brokers is to either shut shop or consolidate. "Scale is an issue because of a highly fragmented market," observes Rashesh Shah, Chairman of the Edelweiss Group. Shah, who started as a broker around 15 years ago, has managed to create a diversified financial conglomerate with interests in broking, asset management and credit. But it is becoming increasingly difficult for smaller brokers to sustain high-quality research teams and also manage the rising infrastructure costs that the fast-changing trading technology entails.

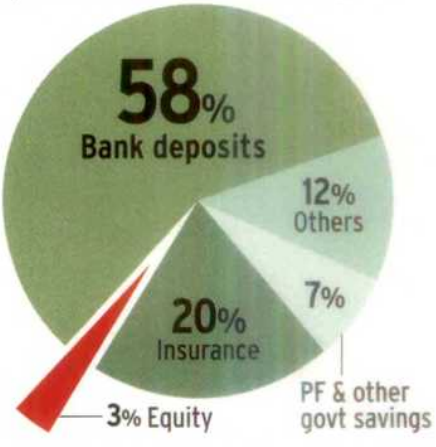
Then there are compliance issues as well. Take, for example, the arbitration costs for brokers. In a dispute between a broker and investor, which is quite common, the entire cost of arbitration is borne by a broker, eroding the wafer-thin margins further.

It is a market where the big boys call the shots. Of the 8,500-odd brokers on the two leading bourses, a select group of top 100 control 77 per cent of the cash market turnover — it was just half in 2000-01. The remaining 8,400, are then fighting for crumbs and account for only about 20 per cent of the turnover.

Now here is some more perspective. Stocks in the 30-share BSE Sensitive Index, or Sensex, account for 40 per cent of the market capitalisation. The top 100 companies stack up

Market cap in ₹ crore as on Feb 4, 2011
Source: BSE

Numbers in crore Source: BT Research



Distribution of household savings Source: RBI

to a staggering 70 per cent of the market value.

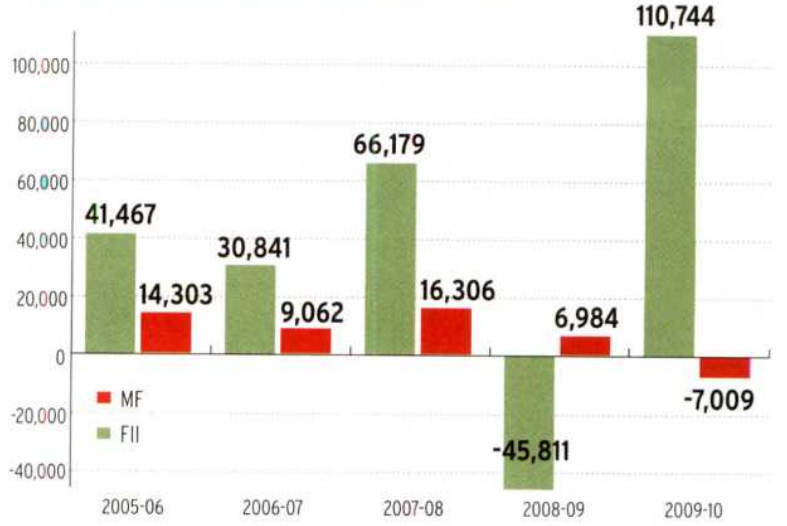
And the weakest link: the near absence of retail investors. According to demat data of the National Securities Depository Ltd or NSDL and the Central Depository Services (India) Ltd or CDSL, the market has a retail investor base of two crore — a small fraction of India's burgeoning population of 120 crore. Broking houses put forward a more credible figure of 30 to 40 lakh active retail investors. "There are many who compare the growing mobile subscribers' base to investors' base. But mobile is more of a need or a necessity," counters Gagan Rai, Managing Director and CEO, NSDL.

"It is also a function of education and comfort," believes Shah of Edelweiss. Maybe that is the reason why 58 per cent of household savings end up as bank deposits, and only 3 per cent go into equity investments. Says Anup Bagchi, Executive Director at ICICI Securities: "Retail investors are drawn to safe-haven assets."

Even domestic institutions, especially mutual funds, have been playing second fiddle to foreign institutional investors. FIIs, who are today two to three times larger than domestic institutions in terms of net investments in the Indian equity market. "Domestic institutions will catch up in the next three to five years," predicts Shah.

Lords of the Ring

FIIs call the shots in the Indian markets

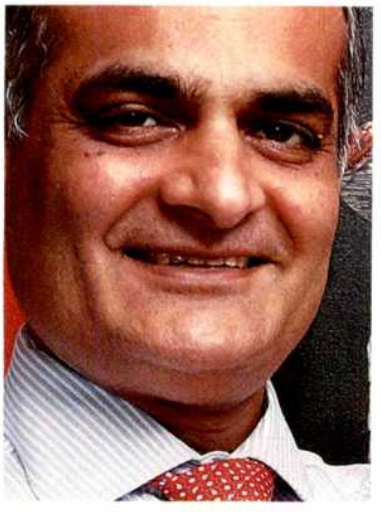


Figures are net inflows in ₹ Crore

Source: SEBI

"For brokerages, scale is an issue **because of a fragmented market"**

RASHESH SHAH, Chairman, Edelweiss Group



NISHIKANT GAMRE

The Indian stock markets, then, have not matured yet and are still going through a transitional phase, say analysts. To be sure, most analysts concur that systemic reforms initiated by the Securities and Exchange Board of India, or SEBI, in the last decade, especially after the Ketan Parekh scam, have built a sound foundation for the markets. Indian markets have done away with the opaque *badla* or the carry-forward system and replaced it with a daily rolling settlement cycle. Today, all positions are settled two days after the transaction or on a T+2 basis.

In addition, India now has a vibrant futures and options market — one of the most liquid in the world — with retail investors accounting for 10 to 12 per cent of the turnover. The robust market infrastructure will catapult India into one of the most advanced stock markets globally — only, it will be a gradual process. Already, the NSE is the third-largest bourse in the world in terms of volume turnover. Says NSDL's Rai: "We have a large population entering the job market and the demographics also favour us."

The biggest challenge now for the exchanges and SEBI is to enhance investor awareness, say analysts, even as the market regulator continues with reforms such as the introduction of physical settlement in derivatives and a shorter settlement cycle (T+2 to T+1). "We have to put the nuts and bolts for an effective foundation," says Bagchi. "There is an issue of throughput going into the stock market," sums up Shah of Edelweiss. ◆

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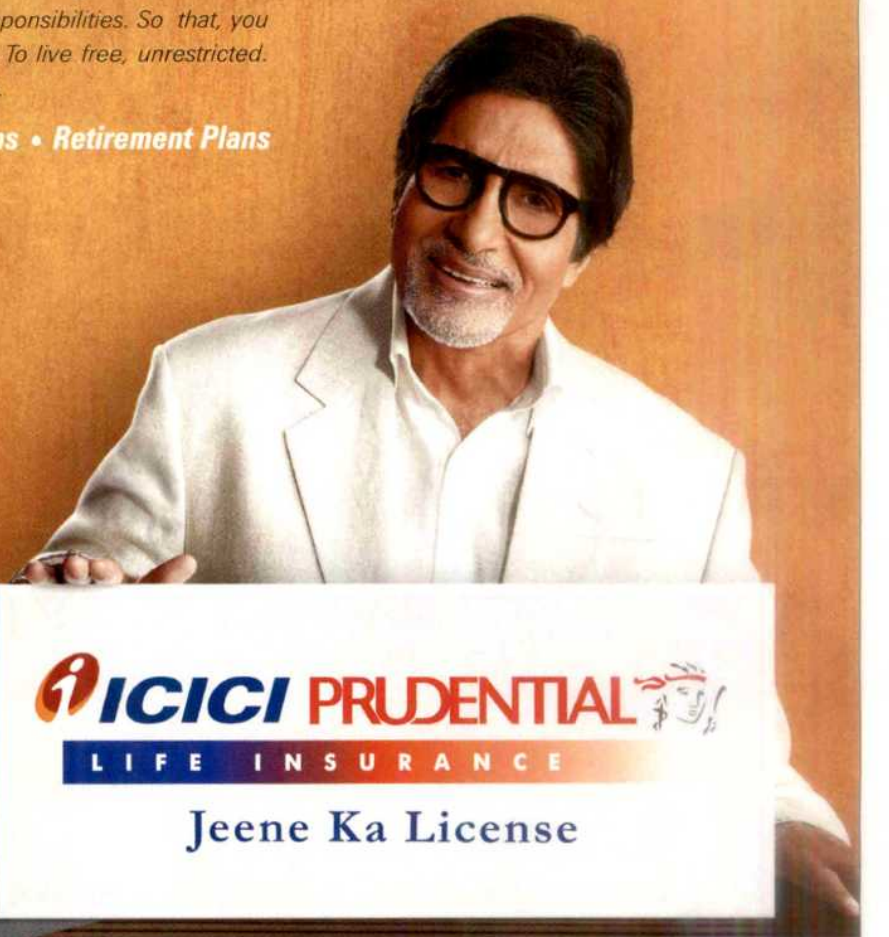

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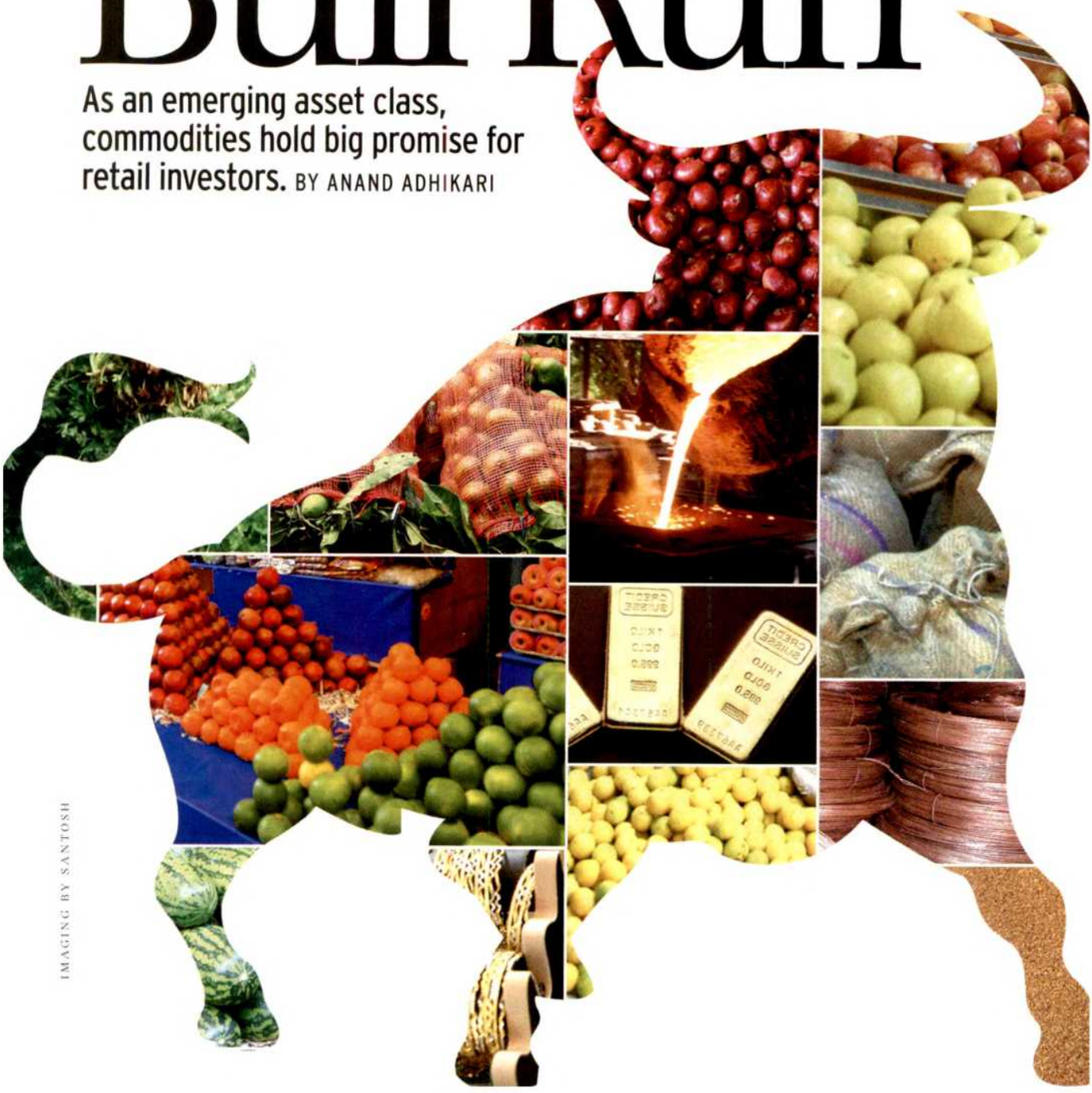
The Other Bull Run

As an emerging asset class, commodities hold big promise for retail investors. BY ANAND ADHIKARI



IMAGING BY SANTOSH

It was a low-key launch, without much fanfare, for commodity derivatives trading on the Multi Commodity Exchange of India, or MCX, in November 2003. There were concerns in some quarters that excessive speculation in commodities would lead to price volatility. To begin with, only a dozen commodities were given the nod for derivatives trading.

Seven years later, most of these fears appear to have been unfounded and commodity derivatives trading has actually been a spectacular success story. Already, for those who want to diversify their portfolios beyond shares, bonds and real estate, commodities are emerging as the best option. Volumes on the MCX alone spurted to a record ₹8,635,705 crore in 2010. All the three commodity exchanges in India — the MCX, the National Commodity and Derivatives Exchange, or NCDEX, and the National Multi-Commodity Exchange of India, or NMCE — have electronic trading, settlement systems and a national presence. Futures trading is possible in over 100 commodities. The largest commodities bourse, MCX, today has a vast network of a 1,000-odd brokers and over one lakh trader workstations. Leading financial services groups such as Kotak, Religare, Motilal Oswal, Edelweiss and Sharekhan have entered the market or have plans to do so.

"It is a very easy market to understand," says Pritam Kumar Patnaik, Vice President, Kotak Commodity Services. The variables impacting commodities are mainly seasonal factors along with demand and supply, and global aspects. Historically, pricing in commodity futures has been less volatile compared to that in equity and bonds, thus providing an efficient portfolio diversification option. Producers of a commodity can shield themselves from price volatility by selling in futures, retail investors can add commodities to their portfolio without necessarily taking delivery, and exporters can get an indication of the likely future price, and accordingly build it into their contracts.

Commodities have given investors spectacular returns of late, and that explains their surging popularity. Silver, nickel, pepper, red chilli, crude palm oil and turmeric are among commodities that have fetched returns of between 20 per cent and 70 per cent over the past year. The reasons for this are not too difficult to understand. The rapid economic growth in India, China and Latin American countries is driving consumption of commodities — from base metals to agri commodities — and putting pressure on prices. Indeed, a number of commodities have shown a secular, long-term bull run. Consider the example of gold, which has rallied from $250 per troy ounce in 2000 to a high of $1,400 per troy ounce in 2010. In the same period, silver zoomed from $5 per troy ounce to $30 per troy ounce.

Lamon Rutten, MCX Managing Director and CEO, attributes the explosive growth in commodities

The Boom

Futures volumes have exploded in the past few years

MCX turnover in ₹crore

> "Our markets could follow the global trends where commodities **are two to three times equities, if regulations are relaxed"**
>
> **LAMON RUTTEN,** Managing Director and CEO, MCX

UMESH GOSWAMI

trading to the efficient trading platforms. Rutten, whose MCX dominates the market with an 80 per cent share in total turnover, says the corporate sector is taking a lead in hedging its risks on the commodity bourses. "The commodities boom only underlined the need for effective risk management," adds R. Ramaseshan, Managing Director and CEO of rival NCDEX. Non-agricultural commodities are more liquid where the big corporates hedge their raw material risks or play the arbitrage game by taking advantage of the price differentials in different markets.

In India, corporates account for the lion's share of the turnover in commodities, and there are others like traders, exporters and high-net-worth individuals. Retail constitutes a relatively small 20 to 25 per cent. But all this could change soon with a vibrant futures market. Retail investors can build a portfolio in commodities without having physical stocks as all the exchanges offer both options — cash and delivery mechanisms. If investors want the contract to be settled in cash, they have to indicate at the time of placing the order that they do not intend to deliver. For taking or making delivery, investors have to provide the required warehouse receipts. An overwhelming majority of the contracts, 90 to 95 per cent, are settled in cash, and for trading, margins are payable upfront to the exchanges through brokers. Margins range from 5 to 10 per cent of the value of the commodity contract, which vary from ₹16,114 (gold guinea) to ₹2,037,500 (gold 1-kg contract). So, you could actually start off trading with just ₹800.

"Commodities is a very easy market to understand... **The asset class is so large that nobody can manipulate prices"**

PRITAM PATNAIK, Vice President, Kotak Commodity Services

At present, the equities futures market in India is three times the size of commodity futures — unlike in the US and UK where commodities are more liquid than equities. But the commodity futures business in India is on a tear and analysts believe it will soon mirror the global trend where it is two to three times bigger than equities. "We could see something similar if regulations are relaxed in India," says Rutten.

Exchanges and market players argue that the growth of the commodities market has been hit by a stifling regulatory framework, particularly the bar on institutional trading by banks, mutual funds and foreign institutional investors, or FIIs. Traders also feel there is needless and excessive intervention by the authorities. In the past few years, futures trading in several commodities such as rice, wheat, soybean oil, rubber, chickpeas and potatoes has been banned for extended periods by the market regulator, the Forwards Markets Commission, to curb excessive speculation and tame inflation. Globally, too, there have been precedents where futures trading in select commodities has been restricted. For instance, trading in onion futures has been banned in the US after price manipulation by a cartel was uncovered in the 1950s.

However, experts point out that curbs on futures trading have not had much impact on inflation in most cases, in India and abroad. Instead, they adversely affected farmers and importers who were hedging their risks on the exchange platform. In 2008, a government-appointed panel chaired by economist Abhijit Sen did not recommend a ban on other food commodities, saying there was no conclusive evidence to suggest that futures trading contributed to price increases.

In the past, the government's decision to ban exports of commodities such as wheat and sugar to address domestic shortages also prevented proper price discovery in the market — as is supposed to have happened when wheat prices flared up internationally in 2008 and India banned exports.

Highly traded commodities like base metals and bullion are linked to international prices. "The asset class is so large that nobody can manipulate gold or energy prices," says Patnaik of Kotak.

Despite the obstacles, the commodities market is evolving as a promising asset class for retail investors. But, like the equity markets, investors would do well to do their homework before investing in their favourite commodities. ◆

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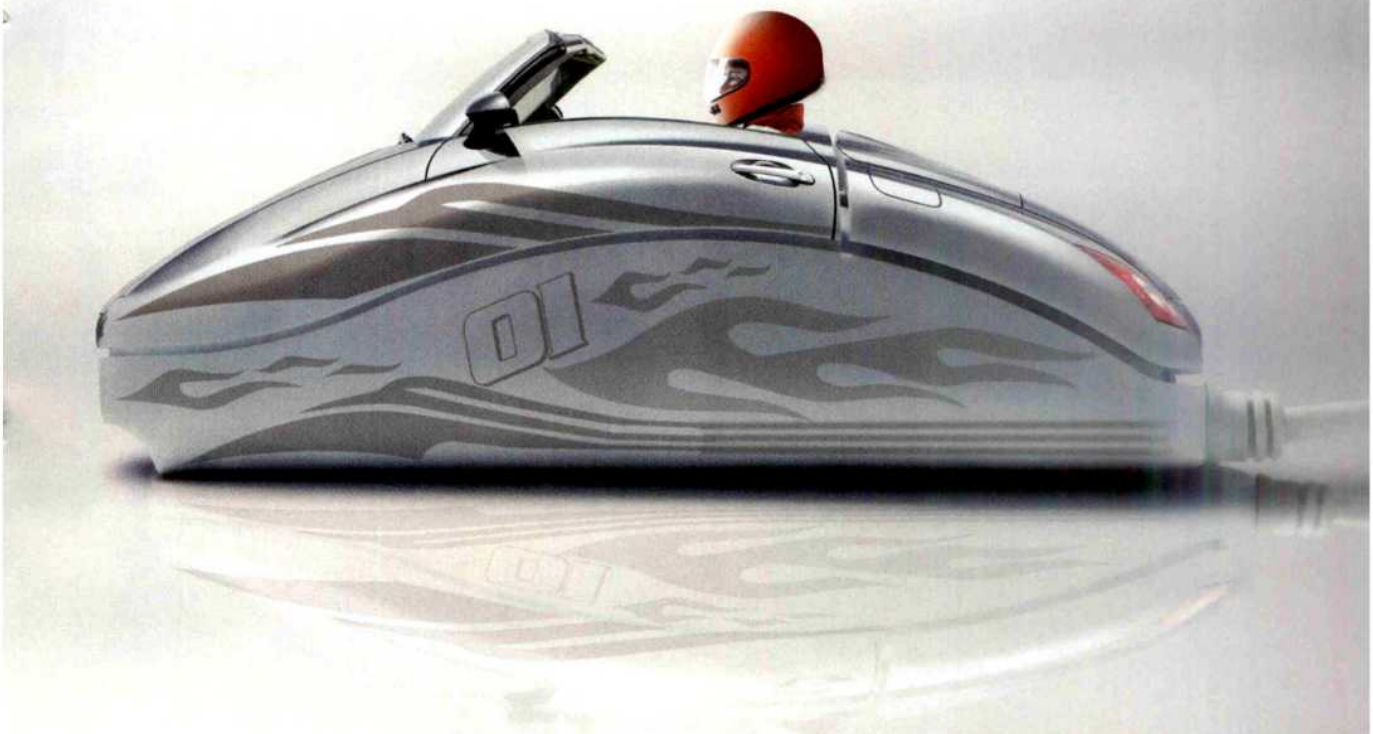

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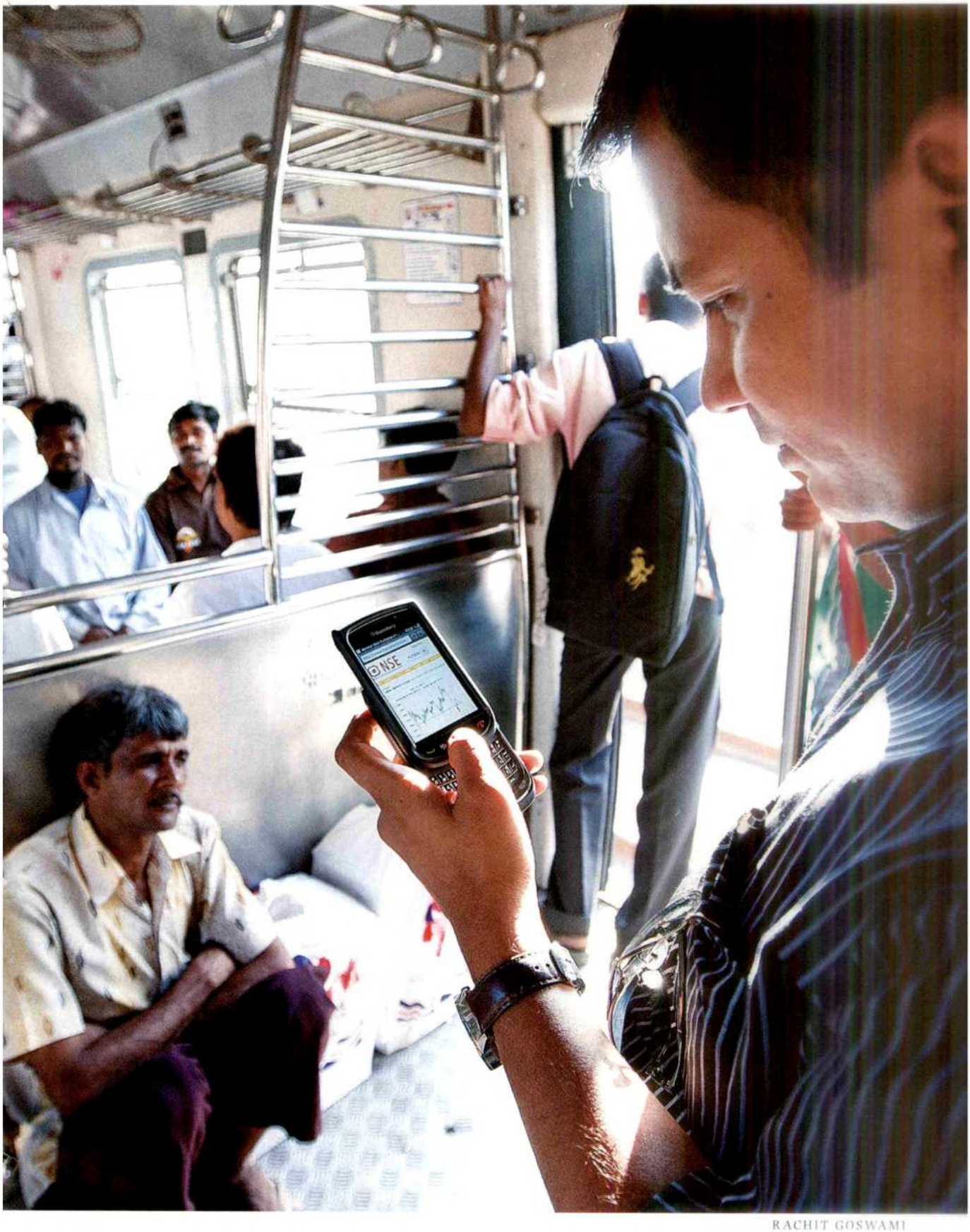
The Market Movers

▸ Financial planner Manish P. Hingar keeps in touch with the markets, even on a moving train

▾ Rajendra L. Gohil, a Mumbai civil contractor, is a markets junkie since 1997. He believes the markets will take off in 2012-13

RACHIT GOSWAMI



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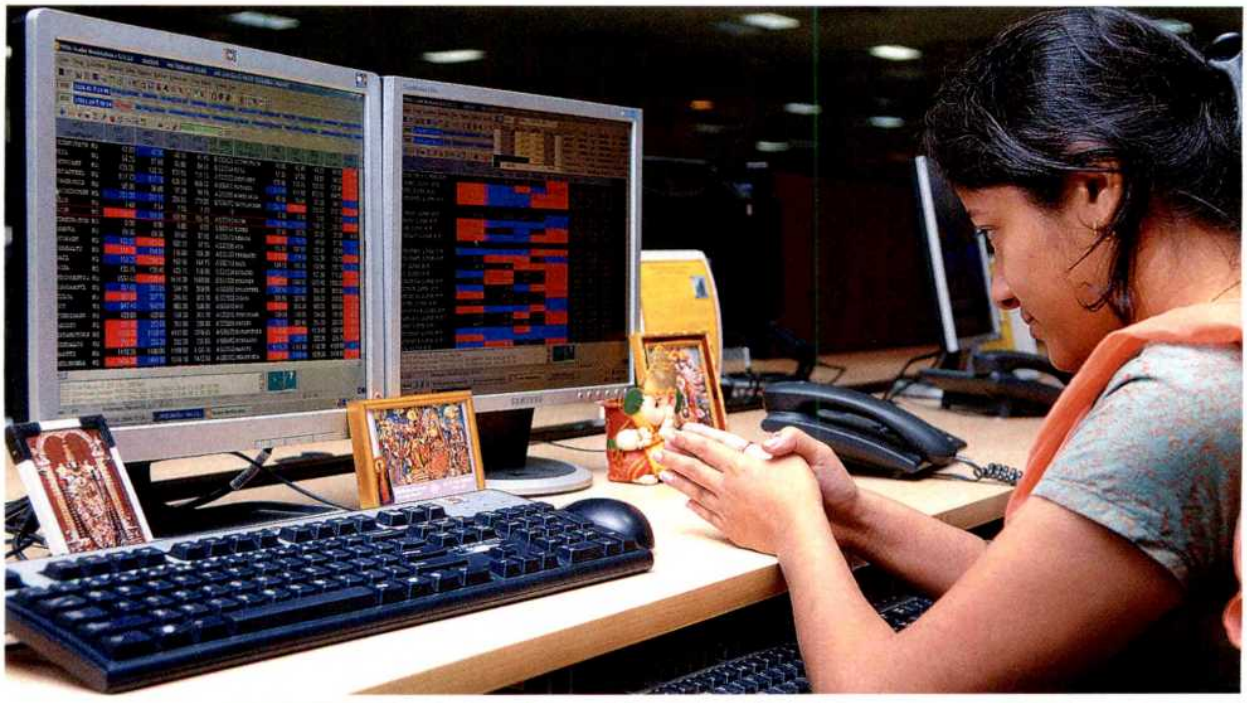

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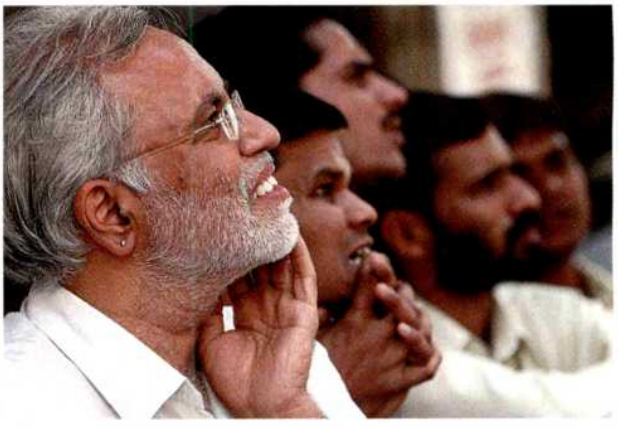

(Clockwise from top)

A trader at Motilal Oswal invokes her favourite deity's blessings before the beginning of a busy trading day

Young and old alike chant the market mantra outside the Bombay Stock Exchange

New Delhi lecturer Anjum Padyal made a neat pile on the market — not just to buy her cereal but also to make a down payment on her Honda

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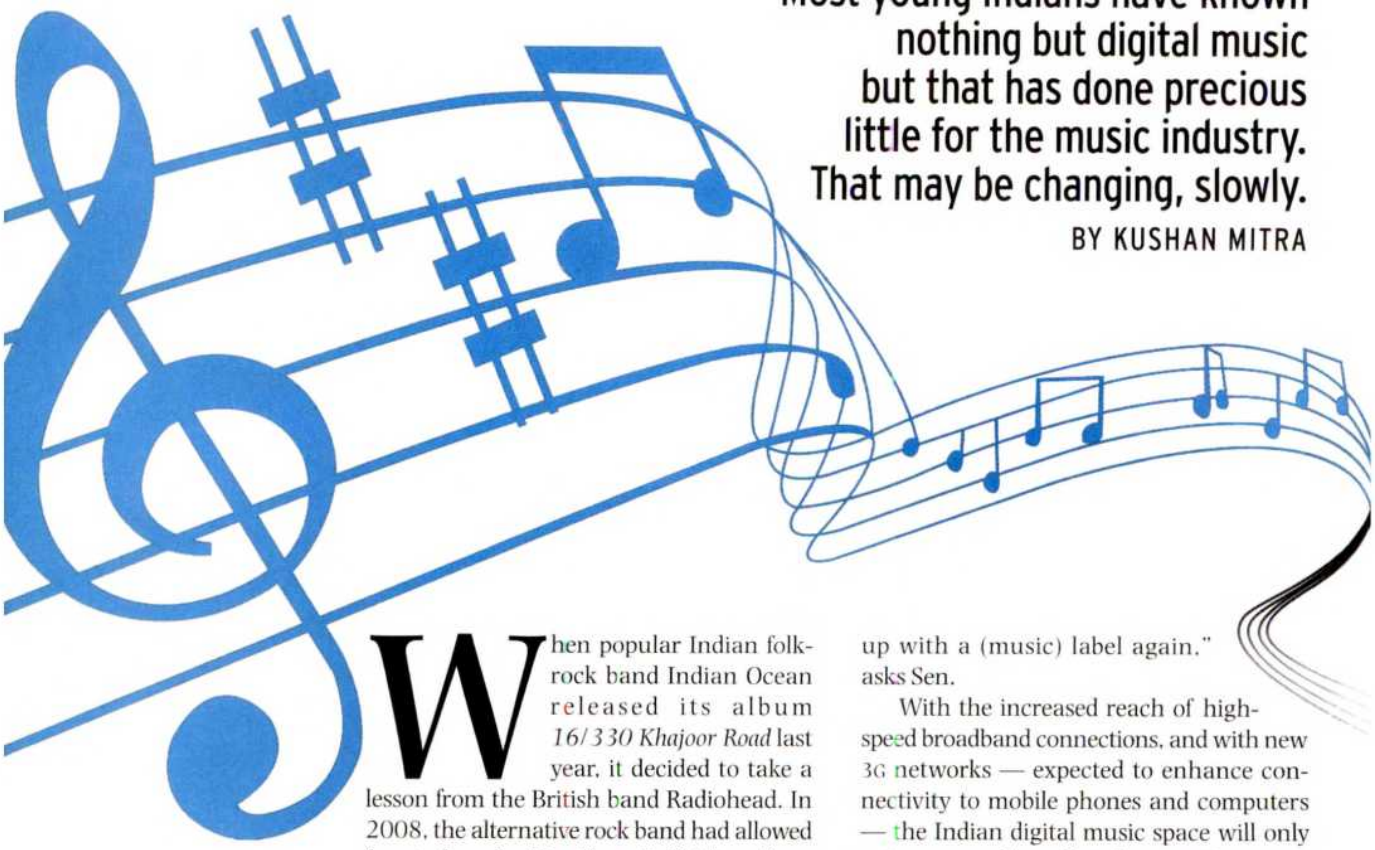
Most young Indians have known nothing but digital music but that has done precious little for the music industry. That may be changing, slowly.

BY KUSHAN MITRA



When popular Indian folk-rock band Indian Ocean released its album *16/330 Khajoor Road* last year, it decided to take a lesson from the British band Radiohead. In 2008, the alternative rock band had allowed fans to download its album *In Rainbows* from its website and pay whatever they had "thought fit". Indian Ocean went one step further — its fans could download the entire album for free.

"There have been loads of downloads this time," beams Sushmit Sen, the band's guitarist. Sen has an interesting point to make: despite giving away the album for nothing, thanks to a tie-up with whisky brand Johnnie Walker which sponsored its website, Indian Ocean actually made seven times the money it made from its previous best-selling album *Kandisa*, released by Times Music in 2000. "Tell me why should we sign up with a (music) label again," asks Sen.

With the increased reach of high-speed broadband connections, and with new 3G networks — expected to enhance connectivity to mobile phones and computers — the Indian digital music space will only get more exciting. But the question every music content owner, operator and music distribution channel is asking is, will this excitement translate into revenues.

Jasmeet Gandhi, Head of Services Marketing, Nokia India, jokes about the time he went to watch the film *Rock On* with his daughters. The film, which captures the life behind the scenes of a rock band, ended with a message on the screen imploring users not to download pirated copies off the Internet. "My normally reserved elder daughter started laughing and said 'who are they kidding!'," Gandhi says, adding that the problem for music — and movie — companies in

500 million mobile handsets with the ability to play back digital music files

Rock band Indian Ocean allowed fans to download its new album *16/330 Khajoor Road* for free from their website, and actually made more money than the physical format release

India today is that a large proportion of their users see "downloading off the Internet as a birthright".

Even if the Internet cannot be directly accessed by many people, at least in a high-speed form, the proliferation of Secure Digital, or SD, memory cards has exacerbated the problem. Over 95 per cent of mobile phones sold today have SD memory card support and therefore also have a music player. In any major mobile retail market, like Delhi's Gaffar Market, hole-in-the-wall shops selling memory cards with pre-loaded, mostly pirated content are a common sight. Service provider Vodafone and mobile retailer Spice Digital have experimented with pre-loading legal content on phones and enabling users to download in their stores. But it is still early days.

Shireesh Joshi, Director, Marketing, Bharti Airtel, admits that this is a problem. "We have had legal full-track downloads from a wireless application protocol, or WAP, site for some time now and downloads have been quite less compared to our customer base."

It is not even a problem of cost, as most tracks cost just a rupee. But if not cost then what? Gandhi believes the problem is the user interface, which is why Nokia has spent a lot of money developing its Ovi Music Store. And while the experiment of unlimited Digital Rights Management protected music has failed in most countries for the Finnish phone giant, India is one of the countries where it is keeping the store alive.

"Songs should not only be cheap but have to be available easily. We have worked hard in doing that, and we also have worked with the operators in designing data plans that do not dramatically increase the cost of the song you download," says Gandhi.

The last point is well taken. Even for songs with Ovi Music Unlimited, Nokia's music download service — users of certain devices can download songs for free for a year — usurious data rates mean a four-minute song download over some data networks could cost you around ₹50 in data charges.

But if the concept works, the sky is for the taking. Apple's iTunes store in the US is the leading music retailer there by a long margin.

KPMG pegged revenues from the Indian music industry at ₹780 crore in 2009, predicting it to touch ₹1,400 crore by 2014 — driven by digital music. The share of digital music in the total revenue pie would go up to 63 per cent from the current 29 per cent, the consultancy firm had said.

This growth hinges on monetising what today are mostly illegal downloads. One way could be downloads on the mobile phone. Airtel has not become India's largest music

150 million users subscribe to Caller Ring-Back Tones

"There will continue to be multiple distribution media for music in India, but the digital platform will play an ever-increasing role in future"

RISHI KHIYANI, CEO, Indiatimes

Only one in 50 songs played back on digital music devices is thought to be a legitimate version

retailer on the back of nothing.

For certain services where there is no technological alternative, legal downloads still matter. Caller Ring Back Tones, or CRBT, is the most popular with one in five Indian mobile users availing of the service by paying ₹30 a month and ₹15 a song, according to Medianama.com — a site that tracks the digital content space. After text messaging, says Nikhil Pahwa, editor of the site, CRBT is the biggest mobile value-added service. Even there, the news is not very good. "CRBT growth is stagnating," Pahwa points out, "and whenever there is a free alternative, India's penny-pinching mobile users gravitate towards that option."

Part of the problem, says Gandhi, is that the Indian music industry is dominated by the movie industry. "The shelf life of a song is very low; a hit song will at best be remembered for around six months. So, the idea is to make as much money in that period."

And because piracy spreads the popularity of a movie and the music is released often a couple of months ahead of the movie — it is often looked upon benignly. "A movie ticket costing more than ₹100 or a few rupees for a song, what would you prefer as a movie producer?" says a music distributor on condition of anonymity. Even Indian Ocean's Sen believes downloads, even if illegal, help the band reach out to more fans than ever before and that is showing in attendance for the band's live shows.

Even though some states, notably Punjab and West Bengal, have an artiste-led music culture on the whole, artistes do not have it very good in India when it comes to revenues. The proposed new Copyright Act is expected to solve these problems to a degree giving artistes some rights over their creations.

In fact, Nokia hopes to redress this situation by starting Nokia Music Theatre soon. Similar to the Coke Music Studio, pioneered across the border in Pakistan, the concept will have artistes of all hues coming to studios and jamming together creating a whole new repository of content. "We will then use our Ovi Music Store to distribute the songs," says Gandhi. While the model may not be a long-term one, it could start a new trend.

Yet another model that could emerge is ad-supported music that people can listen to off the 'cloud' — music that is hosted on the Internet and can be accessed from any Net-connected device. Services such as Pandora and Spotify already exist in the US and Europe.

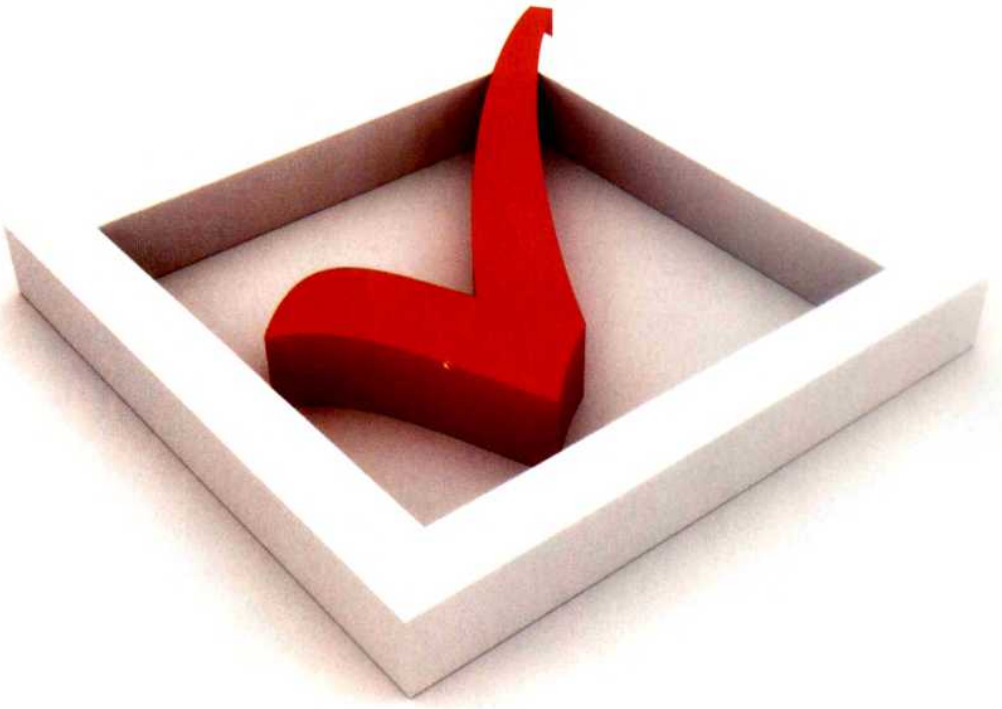
Here, Indiatimes is taking the lead with Gaana.com around the corner. "We will add a social dimension to music listening," says CEO Rishi Khiyani. The concept is simple: sign on to the service using Facebook Connect, listen to songs, share them with friends and take suggestions from the music recommendation engine. The service, under alpha testing now, expects to go live in late March or early April. And users who want to store their songs offline would also be able to download songs legally off the service and load it across several devices.

It remains to be seen which model succeeds in the digital music space in India. But one thing is for certain, India would have found its own unique solution for making money from digital music. ◆

₹1,000 crore
Estimated size of the music industry in India

Is the future streaming?

In the US, services such as Pandora and Spotify allow users to stream an endless number of songs from the web onto multiple devices for free. Indiatimes is about to launch a new service called gaana.com that will do the same



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Participants at a music reality show on television

SHANKAR

SWEET SWELL

Music reality TV shows and live performances resonate across India, opening new opportunities for singers.

BY K.R. BALASUBRAMANYAM and ANUSHA SUBRAMANIAN

For a full season, Anju Joseph sang. Grabbing hearts in Kerala and the Malayalam-speaking TV audiences as far as Chicago and Sydney. The 20-year-old petite contestant on the *Idea Star Singer* music reality show on Asianet, the Star TV-owned Malayalam channel, made it to the finals but did not win the title and the ₹1-crore villa prize.

She has few regrets though. The show has made her a busy singer today, doing a show or two in West Asia and making close to ₹2 lakh every month. Plus, a dozen CD releases in six months. "I accept events only on weekends and holidays," says Joseph, a BA student from central Kerala's Kanjirapally town. She plans to become a full-time singer after her studies.

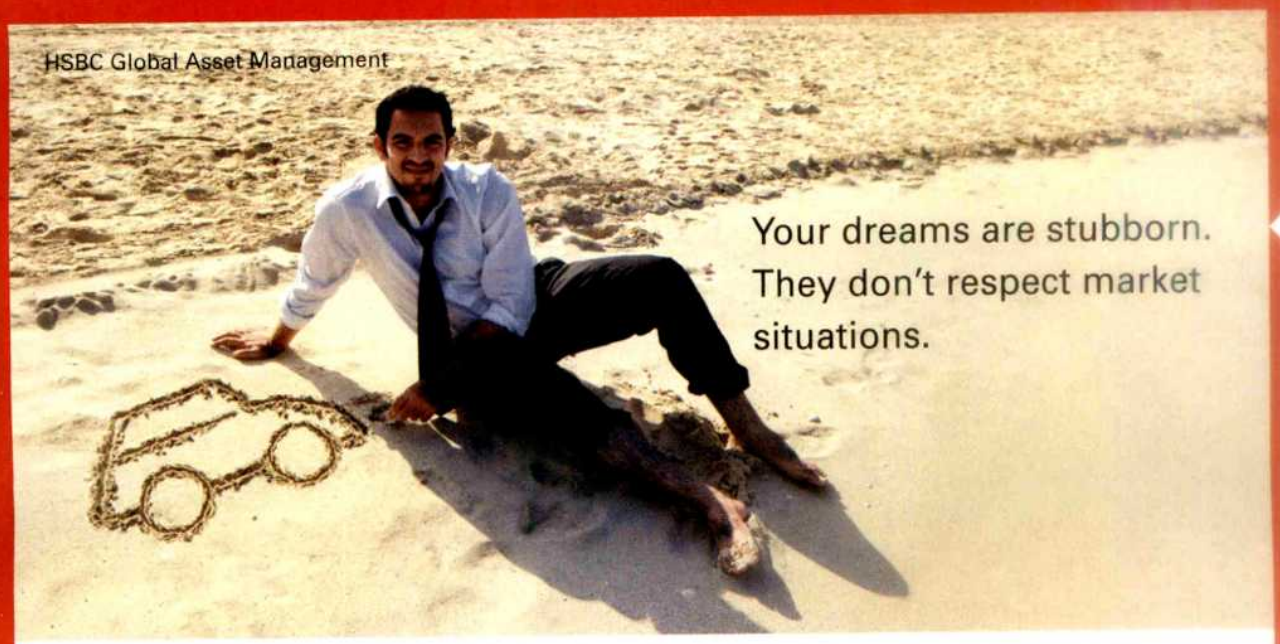
Music reality shows, which began with the simple format of *Antakshari* on Hindi channels, have captured the imagination of TV audiences across India, and matured in scale and grandeur. Zee TV was the first satellite channel to launch a music reality show 15 years ago. The programme, *SaReGaMaPa*, started in 1996 and has so far completed 1,040 episodes. It started as a weekly programme and was later made twice a week.

In recent years the format — a singer mostly accompanied by a live orchestra — has exploded across TV audiences countrywide, being copied across language channels and watched by millions. In doing so, music reality shows have also become roaring businesses for the channels. "What we started as a 60-minute weekend show, *Star Singer*, is now a 90-minute weekday show, thanks to its popularity," says B.S. Praveen Kumar, Public Relations & Chief Manager, Telecast Coordination, Asianet.

Surging viewership means fat revenues for TV channels. On Zee TV, for instance, *SaReGaMaPa* commands a sponsorship of ₹2 lakh per episode. A 10-second advertising

Multiple Visibility

TV exposure helps singers cross the hurdle of anonymity. This will accelerate as channels discover music is the second best revenue earner after soaps



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Scheme and Benchmark	1 Year	3 Years	5 Years	Since Inception
HSBC Equity Fund - Growth	14.00	0.40	13.55	32.91
BSE 200	9.93	0.59	12.65	24.33

Past performance may or may not be sustained in the future.

The returns are as on 31 January 2011. 'Since Inception' returns are calculated on ₹ 10 invested at inception. Calculations are based on growth NAVs. NAV for HSBC Equity Fund (Growth Option) as on 31 January 2011 is ₹ 101.5408 per unit.

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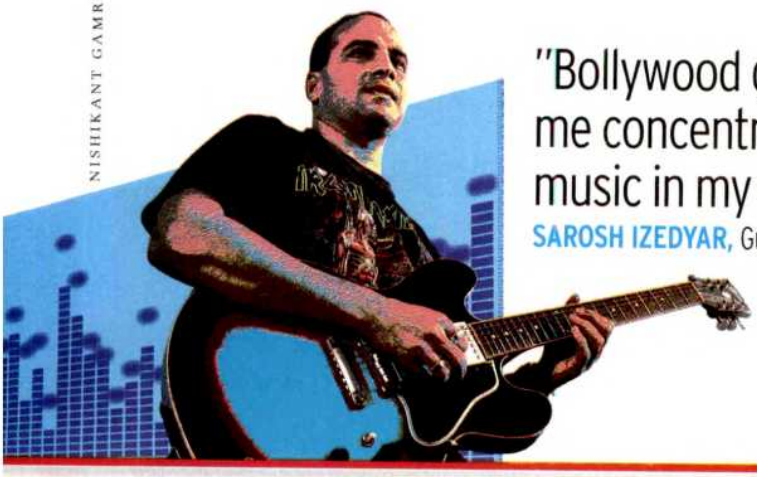

"Bollywood gives me the money and helps me concentrate on developing original music in my spare time"

SAROSH IZEDYAR, Guitarist, The One Night Stand

Sun Network is planning a new show, Singing Superstar, the winner of which will get to sing two songs in movies

slot on the music show goes for ₹1.6 lakh versus ₹1.5 lakh for a popular-rated soap. "Reality shows always command a higher premium because of the celebrity and glamour factors," says Joy Chakraborty, Chief Revenue Officer and Chief Operating Officer niche channels, Zee Telefilms.

More and more channels have discovered that music is the second best revenue earner after the daily soaps. Sun Network's Senior Vice President K.Vijay Kumar says U2, its three-year-old Kannada music channel, is profitable.

Though this varies widely, music labels are paid approximately ₹25,000 per track by the channels. The people gaining the most are singers and musicians themselves. *SaReGaMaPa* discoveries Shreya Ghoshal and Kunal Ganjawala have gone on to become playback singers. Shekhar Ravjiani of Vishal-Shekhar fame emerged on the show and is now a sensation in Bollywood. Kamal Khan, winner of the recently concluded season, sang a song for the Farah Khan-directed *Tees Mar Khan* even before he won the contest. Examples abound.

Television exposure helps singers cross the first big hurdle — of anonymity. "In Chennai, many singers have just four movie songs to their credit, but they are recognised, and are busy performing at events," says Aldam Jacob, Head of Non-Fiction, Sun Network.

Bar Call

On a recent weekday evening in India's most crowded city club, Blue Frog — as much an upmarket watering hole as a live music venue — it was evident that another business model is emerging. Some 300 blues enthusiasts in Mumbai were crammed in to listen to Luke Kenny Mojo Jukebox. A few months ago, 850 people thronged the city's Hard Rock Cafe when Indian Ocean brought its show to town.

In the past five years, business has been looking up for live bands in India as more bars and restaurants have turned to live music as a differentiator. "Without a doubt, bands are real crowd pullers," says Carlton Braganza, owner of Opus Bar and Restaurant in Bangalore. Jay Singh, co-founder of JSM Corporation, the franchisee for Hard Rock Café in India, believes today it is possible for a musician to survive without a day job. Singh's own chain hosts 360 shows a year.

While top bands such as Indian Ocean charge about ₹5 lakh a show, other established ones get anything from ₹20,000 to ₹1 lakh; new bands start at ₹10,000 for an evening at established joints in the big cities. Sarosh Izdeyar, 39, took the plunge into music in 1997 after a 30-month stint as a marketing executive. "The initial years were a struggle but I was clear I did not want to pursue higher studies," says the guitarist for The One Night Stand. Initially, he made ₹500 a show, but today earns 20 times as much. Bollywood live shows with stars like Shaan and Shankar Mahadevan pay several times over.

The going is not always smooth and easy. Howard Periera quit his back-office job with JP Morgan a year ago to pursue a career in music. As a BPO worker, he made ₹40,000 a month and now makes half that, playing with two bands. The gain, he says, is that he is doing what he always wanted to do.

Clearly music is emerging as a realistic career option, thanks to a combination of TV shows and live events. For young musicians, pursuing their art no longer means a life of austerity. ◆

Path to Profit

Established bands get anything from ₹20,000 to ₹1 lakh for a night's performance with new ones starting at ₹10,000 in big cities

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TOURNAMENT SCHEDULE

Chennai	Wed, Dec 29, Kodaikanal Golf Club, Kodaikanal
Mumbai	Sat - Sun, Jan 8 – 9, Aamby Valley Golf Resort, Lonavala
Bangalore	Fri - Sat, Feb 4 – 5, Eagleton Golf Resort, Bangalore
Delhi	Fri - Sat, Feb 18 – 19, Jaypee Greens Golf Resort, Greater Noida
National Final	Mon - Tue, Apr 4 – 5, Thailand
World Final	Tue – Sun, May 3 – 8, Cape Town, South Africa

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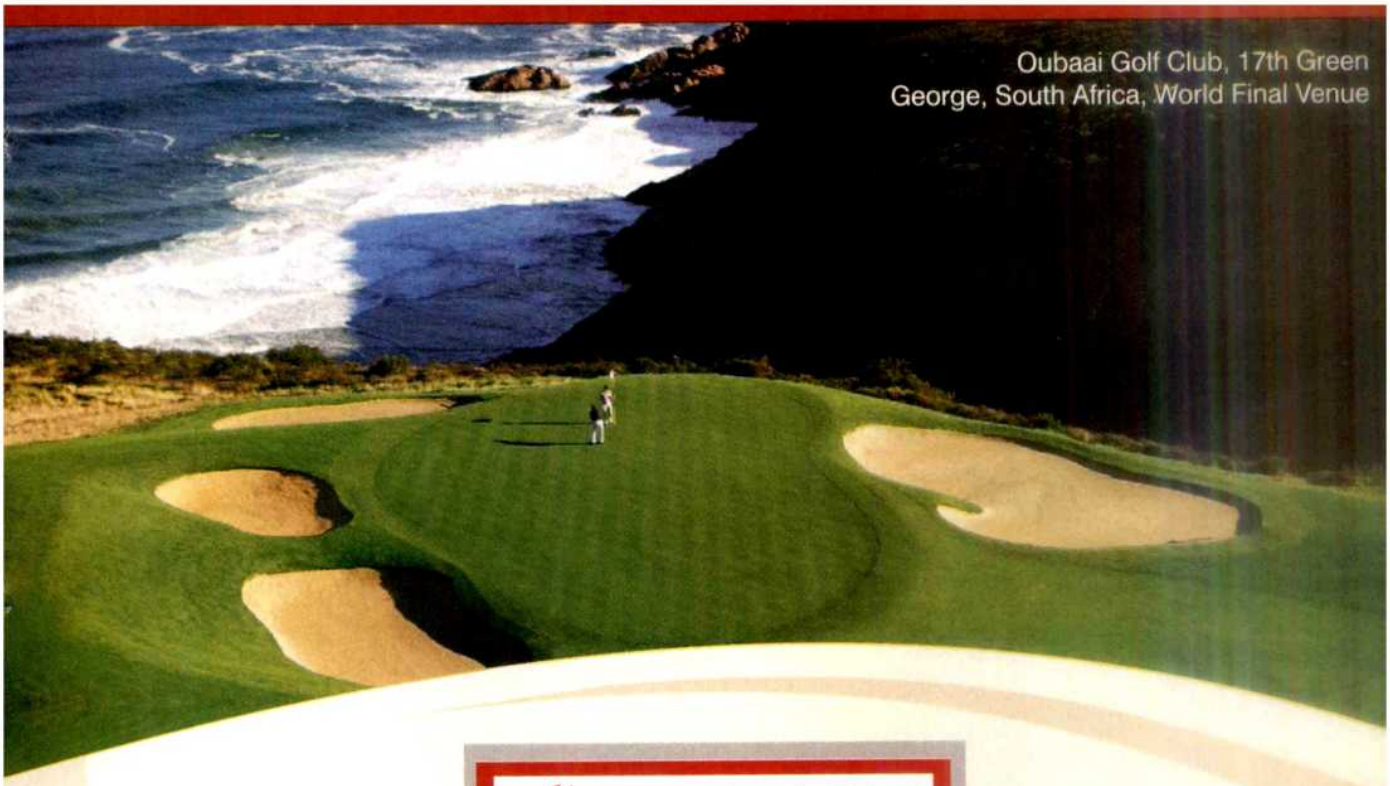

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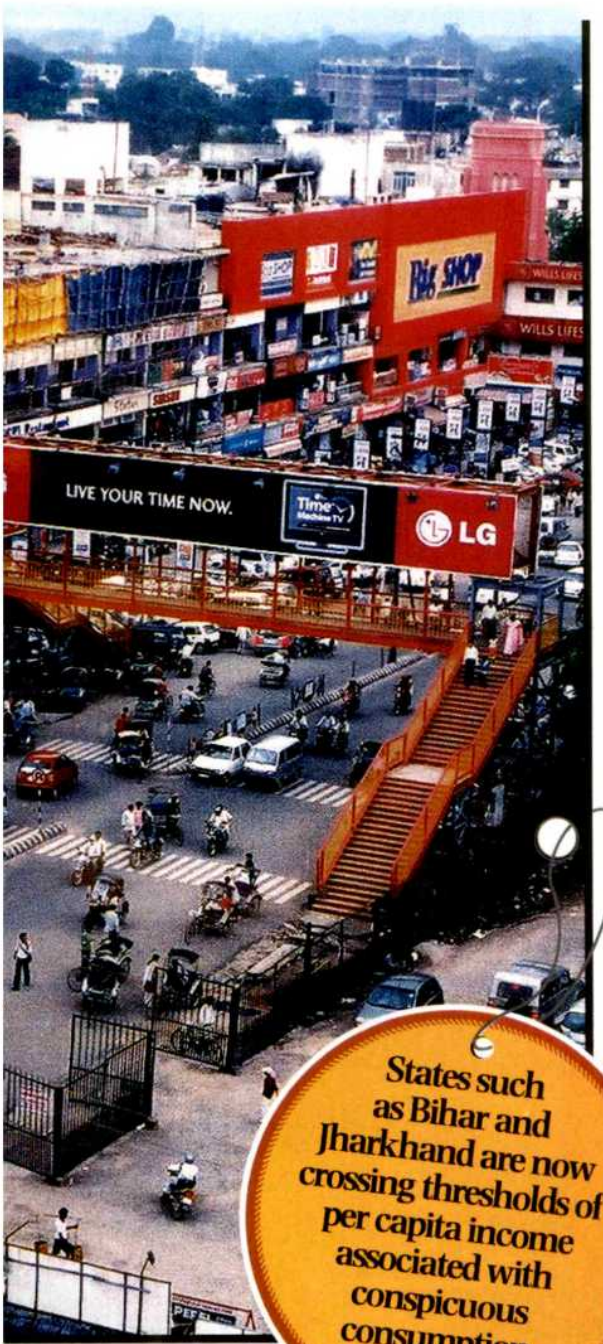
BY SHALINI S. DAGAR and SHAMNI PANDE

SHAMIK KAR www.indiatodayimages.com

Market bustle in Ranchi, Jharkhand

Markets

indicators, are emerging as consumption hot spots.



States such as Bihar and Jharkhand are now crossing thresholds of per capita income associated with conspicuous consumption

Try this for a pop quiz. Where does biscuit major Britannia Industries plan to set up its latest plants? Where did auto market leader Maruti Suzuki clock 40 per cent growth in sales — one of its highest — in the nine months to December 2010? And in West Bengal, would the South 24 Parganas district, otherwise famous for the Sundarbans and the Royal Bengal Tiger, qualify as a consumption hot spot?

The answer to the first is Orissa and Bihar. The answer to the second, West Bengal and Orissa. And the third? An emphatic yes.

Not exactly top-of-mind answers, these. So what explains this flurry of activity in areas often considered laggards in socio-economic indicators?

Manpreet Singh Chadha, Director of multiplex company Wave, who plans to promote a 150,000 sq. feet, three-screen multiplex in what cynics may call back-of-beyond Uttar Pradesh — in Bareilly — may be well-placed to provide an answer. Chadha, whose family has been in the real estate and liquor business in the state, was encouraged to go to Bareilly on the back of a successful venture he pulled off in Moradabad, to which he traces his family roots.

"The idea was to give something that Moradabad does not have. Hence came the idea of a multiplex-cum-mall followed by fashion brands like Globus and affordable food and beverage under a secure environment," says Chadha. The bottom line, of course, was the robust monthly sales of the tenants at his mall.

That logic of bridging a demand-supply gap in regions with high populations, just gaining a foothold on disposable income, which can act as ready consumers, sustains just as well in Bareilly — and indeed other such regions.

For instance, Kishore Biyani's Future Group, whose Big Bazaars are regular features in such modern retail formats, ventured into Bhubaneshwar way back in 2003. Eight years on, Damodar Mall, President, Director, Food Strategy, Future Group, simply calls it their "rockstar store".

Entrepreneur Jagi Mangat Panda, who is the Managing Director of broadband cable network operator Ortel Communications, believes she has captured some of this upside. "Our advertising income has seen a growth of over 50 per cent for the past two years and top line growth has been over 25 per cent annually for the past three years," she says.

Panda attributes this to the higher spends by advertisers such as Nestle, Hindustan Unilever, Godrej and Emami in Orissa. "The past five years have seen exponential growth in

HEMANT CHAWALA

"Our advertising income has seen a growth of over 50 per cent for the past two years"

Jagi Mangat Panda

Broadcast entrepreneur in Orissa

the services sector. The number of banks, insurance, telecom, airline and IT companies has grown. The manufacturing sector, too, has seen growth with the setting up of several small-and-medium-size units. All this has led to a higher per capita income in the cities," she says.

Signs Everywhere

Many of the cities where companies are planning investments are located in states which till recently were loosely called backward states. Characterised by large populations, poor development indicators and almost non-existent infrastructure some of these states were clubbed under the near-pejorative term BIMARU (comprising Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh, and sounding very similar to the Hindi word for "sick") states. That nomenclature no longer holds as states such as Rajasthan and Madhya Pradesh have surged ahead, with new constituents Orissa and West Bengal joining the ranks.

Yet, it is this assorted bunch which is now showing the beginning of a ravenous binge — to consume more of packaged food, bottled water, consumer durables, fast moving consumer goods, telecom and financial services (See *Demanding Their Share*).

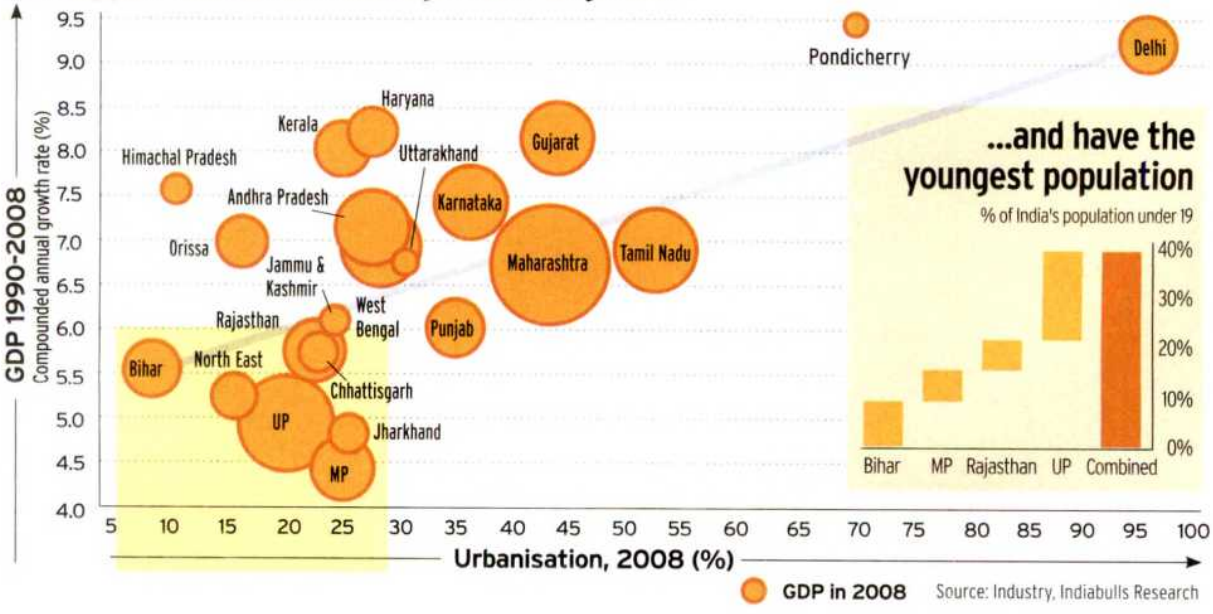
The auto industry, whose growth of 30 per cent has far exceeded expert forecasts, provides a neat snapshot. In the nine months to December 2010, market leader Maruti Suzuki clocked a 40 per cent growth in West Bengal and Orissa over the same period the previous year, while Bihar, Chhattisgarh and Jharkhand notched over 30 per cent growth. Rajasthan, too, chalked up 26 per cent more sales than last year, while in Uttar Pradesh and Madhya Pradesh sales grew in a healthy 18 per cent range.

Consumer durables major Samsung has a similar story to tell. Its sales in states such as Uttar Pradesh, Rajasthan, Bihar, Uttarakhand, Orissa, West Bengal and Madhya Pradesh are growing between 25 and 30 per cent over the previous year.

To be sure, this growth is from a smaller base, but the pace of expansion has these states on the radar of most companies in India.

"Governments in these states are running a lot of employment generation schemes that are encouraging

The laggard states have enough room to grow...



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NISHIKANT GAMRE

"Finance follows politics... many of these states have repeated chief ministers in the past decade"

Shailesh Pathak
Former bureaucrat

people to not leave the state and continue working there. This is having a positive impact on consumption," offers R. Zutshi, Deputy Managing Director, Samsung India.

Boom Drivers

This consumption boom in the towns and cities dotting what was till now considered Laggard India is powered by sustained income growth. A look at the state gross domestic product or SDP shows an accelerating pace. Most of this growth in SDP is coming from the services sector — typically real estate, hotels and the transport sector.

"The income change story across India, propensity to spend, and confidence about the future is very visible in these places, especially in contrast to their past. We are quite bullish about Rajasthan, Orissa, Jharkhand, Chhattisgarh and Bihar," says Future Group's Mall. His experience is that the aspiration levels are higher in some of these states such as Orissa — perhaps a determined effort to break away from the past.

Agrees Hemant Mehta, Senior Vice President of marketing research company IMRB International. "Psychographically, the consumers in these towns are similar in their aspirations to people in the larger, affluent cities and metros — the quantity and depth of demand may vary, but it is there for the same things."

Add to this the phenomenal rise in connectivity — through improved roads as well as telecom. "Connectivity, whether through roads or through telecom has a huge benefit," says Shailesh Pathak, a former bureaucrat and infrastructure expert who has intimate knowledge of Chhattisgarh, Uttar Pradesh and Bihar. Pathak, however, reckons that this is not a case of trickle-down effect but "plug-in effect"— as in the sheer availability of many more economic avenues.

If satellite television has fuelled soaring aspirations, then a stable political environment has helped change things on the ground. Pathak who has been on both sides, government and private sector, believes that it is not surprising that many of the parties ruling these "laggard" states returned to power. "Finance follows politics. Many of these states have repeated chief min-

Cities in laggard states may spend more on health insurance than the metros

SUBIR HALDER

	Mumbai	Meerut	Chennai
USER			
Nuclear Family	₹2,000-3,500	₹800-2,000	₹250-1,000
Joint Family	₹2,500-5000	₹1,000-3000	₹1,000-3,000
NON-USER			
Nuclear Family	₹500-3,000	₹500-1,000	₹250-800
Joint Family	₹2,500-5000	₹1,000-2000	₹800-2,500

Source: Max Bupa-TNS Research, December 2009

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isters in the past decade. Continuity in governance certainly helps in prosperity," says Pathak who has been an infrastructure investor at ICICI Venture and private equity Indian Infrastructure Fund.

Agrees economist Bibek Debroy: "Purely empirically, at least in state elections, it has been seen that voters react most to roads and electricity."

Whether it was improving infrastructure which led to a stable political economy or the reverse, the net impact has been an all-pervasive rising prosperity — evident in higher discretionary spending.

The Bulging Middle

As a result of this surge in consumption, one theme that is playing out in India is the integration of urban and rural areas. Villages are getting integrated and this has much to do with improved road connectivity.

"The big story is that of the 600,000 villages in India. While earlier only around 125,000 were integrated with the rest of the nation, now barring 125,000 which are very remote or have populations lower than 1,000, the rest are getting integrated," says Debroy.

Pathak quotes the famous theory of banking veteran K.V. Kamath while saying that luxury and conspicuous consumption comes in around a per capita income of around $1,000 (₹46,000), whereas demand for better governance kicks in at a per capita income of $1,500 (₹69,000) and above.

Many of the "laggard states" are now crossing precisely these important thresholds of income. So, in a sense, the chimerical middle class of the early 1990s when liberalisation began is probably roaring to life now.

Of course, in the short term, inequality is growing. For instance, for the purpose of financial inclusion, banks take cognisance only of villages with a population of more than 2,500, leaving those with a smaller population unbanked.

Debroy worries about the increased marginalisation of such outposts, which also do not have access to connectivity. There are large tracts in the mineral belt of Jharkhand, Orissa and parts of Chhattisgarh where such conditions prevail. That, perhaps, is where real deprivation lies and why Maoists rule.

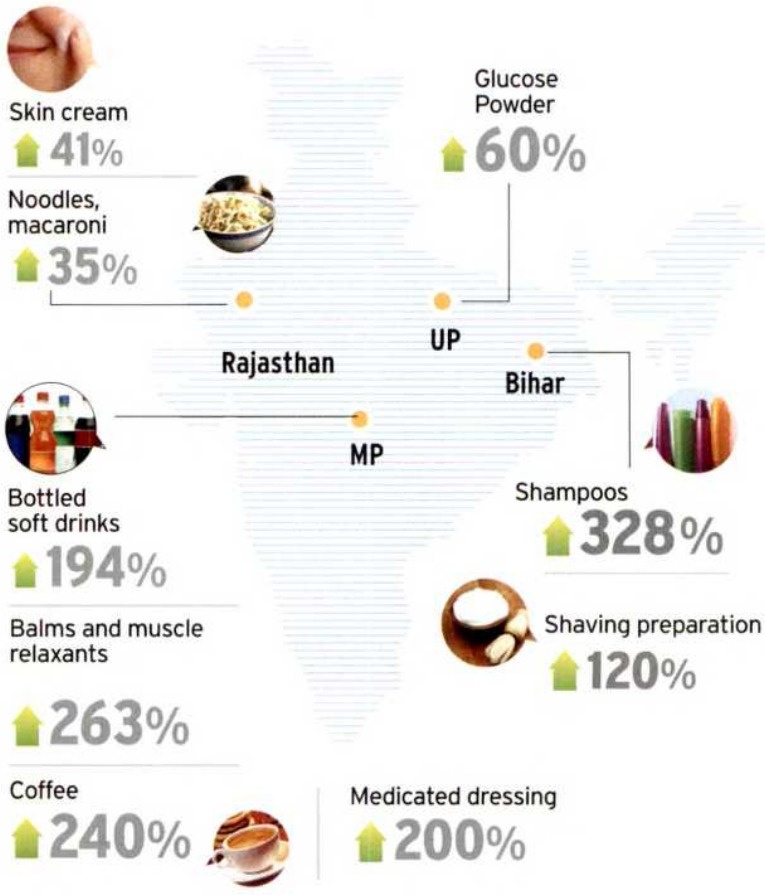
Much of the contours of this unfolding story will be provided by the census data and National Sample Survey a few years down the line. Economist Debroy, for instance, says, "Our perspective will change completely when the new data which incorporates changes after 2003 is published."

But, if what consultancy firm McKinsey & Co. predicted in 2007 about India's consumption growth quadrupling by 2025 holds true, then a large part of that growth will certainly emanate from these laggards. Clearly, the party has begun only now. ◆

While the initial consumption boom after liberalisation happened in the more economically advanced states, the laggards are now catching up

Demanding Their Share

Laggard states are driving consumption growth



Growth rates based on MAT Aug. 2010 versus MAT Aug. 2008

Source: MarketPulse: IMRB's Household Purchase Panel

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Network Drive

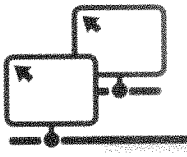
The networking giant, fresh from topping $1 billion in India revenues, begins walking its talk in the hinterland. BY RAHUL SACHITANAND

Future Perfect: A virtual class in progress in a village near Chhindwara in Madhya Pradesh

CISCO

The Gameplan...

- Turn to India's hinterland for the next $1-bn revenue
- Custom-made solutions for the rural market
- Line up new partners to tap the opportunity
- Provide funding and mentorship to firms building Internet-based businesses in the hinterland
- New business unit to focus on long-term opportunities



On a chilly January evening in a Madhya Pradesh village, a group of teenagers files into a classroom for their after-school tuitions. Their teacher is hours away, in a small office at Chhindwara, three hours from Nagpur, the nearest big city. The distance notwithstanding, the students get their lessons in science and English on a virtual board, thanks to the Internet. Good tuition centres and qualified teachers are hard to come by in these parts, and the virtual solution is a blessing for those who do not have to travel long hours to the nearest town.

For the $40-billion networking giant Cisco, this represents the future of its business in India. The firm, which earns most of its revenue from selling equipment that directs Internet traffic, is now staking its future beyond big cities. After finding a firm footing in India, the San Jose, California-headquartered company is thinking long term. Despite poor physical infrastructure and a rudimentary Internet backbone, Cisco thinks it can perhaps seed its next billion dollars or more from places deep in the interiors of India.

It plans to focus on developing these markets, building bespoke solutions, sharpening existing offerings in areas like telemedicine, and even cross-pollinating ideas from other emerging markets such as China to tap this opportunity. "Technology is the answer to empower rural communities," says Susheela Venkataraman, Director, Internet Business Solutions Group. Cisco is walking the talk: from teaching maths in Chhindwara to helping kids with English in Karnataka hamlets. Villagers in Gubbi, in Karnataka's Tumkur district, have seen "a 20-km journey for a caste certificate reduced to a two-minute walk", adds Venkataraman.

Cisco had an early start in India, having set up a sales office in 1995. Its revenues here crossed $1 billion (₹4,600 crore) last year after growing 40 to 50 per cent per annum over the past five years. As part of its focus on emerging markets, Cisco in 2007 chose India as the first place to set up Industry Business Councils, or units focused on pursuing long-term business opportunities. The same year it relocated Globalisation Chief Wim Elfrink — the No. 2 man after Chairman and Chief Executive Officer John Chambers — to Bangalore.

Not satisfied with its breakneck growth in India — its revenue has grown six times in 10 years — the Internet equipment giant is thinking ahead. Though Cisco boasts of big customers here such as the Tatas, State Bank of India and Reliance Industries, besides a majority market share in routers and switches, it now believes the hinterland could be its next big opportunity. "We are very bullish on health care and education," says Cisco India chief Naresh Wadhwa. "We believe there could be multi-billion dollar opportunity from such business initiatives globally in the next few years."

The company is looking beyond its conventional partners (big tech systems integrators such as Infosys Technologies) to discover fresh opportunities. For example, it has tied up with truck maker Ashok Leyland to build local transport solutions, Everonn for distance learning initiatives, and solar power solutions developer Neurosynaptic to offer power back-up to some distant hamlets.

In the process, Cisco is trying to

PHOTOGRAPHS BY DEEPAK G. PAWAR

But...

The plan is dependent on a rapid growth of broadband, where actual numbers have always lagged bold predictions

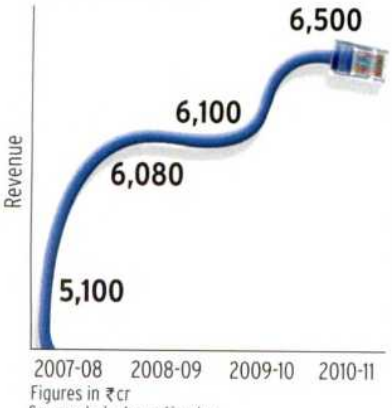
The hinterland is a cost-conscious market. Analysts say Cisco is yet to show it can compete on this front

The government, a major customer, is slow to decide on large projects

Cisco is a key partner in the troubled Lavasa project; other regulatory hurdles could slow growth

Steady Progress

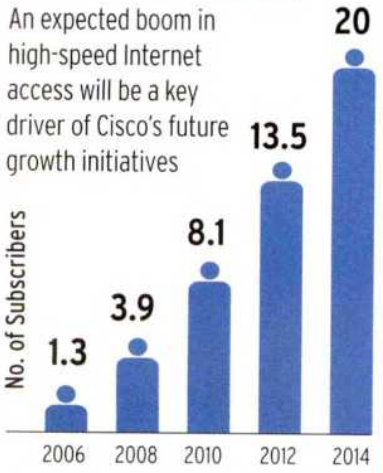
Cisco is making inroads into the Indian market



Figures in ₹cr
Source: Industry estimates

Bullish on broadband

An expected boom in high-speed Internet access will be a key driver of Cisco's future growth initiatives



Source: CII Broadband report/ IMRB
Subscribers in millions

GRAPHICS BY SANTOSH

connect villages using a combination of its own and partner technologies. In Chhindwara, for instance, the company is mentoring and funding three 20-somethings who think they can use the Internet to improve the reach of education in the smallest of villages. In May 2008, Anurag Pawar, a resident of this town with a population of 120,000, met Elfrink and impressed the Dutchman. Pawar's company, Lakshya Networks, wants to provide distance learning education to surrounding villages. Lakshya has covered seven villages, teaching 770 students so far. Pawar thinks he has a winning idea because of the overcrowded tuition centres and the low pass percentage in the region. Cisco has seed-funded Lakshya and even flown mentors from Bangalore to help it scale up. Lakshya's expansion plans — 25 centres and about 3,000 students next year — are music to Cisco's ears as the start-up runs on its products and services.

Similarly, in Raichur in north Karnataka, Cisco is providing distance learning services in five villages with its education partner Everonn. The project is even more ambitious than the Lakshya model, because it gets these lessons from tutors in Chennai, some 500 km away.

Education is one of the biggest opportunities in India. The kindergarten to Class 12 segment already accounts for as much as 40 per cent of an overall $65-billion education industry in India and the National Council for Education Research Training believes that 25,000 new schools are required to keep pace with the booming demand.

A few kilometres away from Raichur, a fort town bordering Andhra Pradesh, Cisco is helping rebuild houses damaged in last year's floods. As part of the project, in nearby Gillesugur, it is also building a prototype of a telemedicine project that it hopes can be a model for the rest. Until the pilot project became operational earlier this year, locals had to travel long distances, often as far as Hyderabad or Bangalore for medical tests. Cisco is trying to reinvent technology for this market, devising a laptop version of its costly HealthPresence set-up, which allows doctors to remotely examine patients on their notebook computers using dial-up or wireless Net connections. A technician rigs up an electronic device the size of a bread box to help a doctor monitor basic health parameters such as heart beat, pulse and body temperature.

Telemedicine is not a new concept. Companies such as Apollo Hospitals have large units in the country and overseas administering medicine remotely. Yet, dozens of projects have failed to take off. If Cisco can prove its model with the Raichur project, the market before it is India's 600,000 villages.

Cisco's most ambitious bet, however, is perhaps on the struggling state-run citizen services centres, or CSCs, which provide technology-based services such as electronic certificates for land, employment, income and caste, payment of utility services and access to high-speed communication for initiatives such as telemedicine in Karnataka, and potentially across the country. The firm, as part of a nine-company consortium along with the Indian

NARESH WADHWA, President and Country Manager, Cisco India and SAARC

"We require partners who understand the hinterland and can support and implement our projects there"

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Competition Calling

Used to lording over the market for Internet gear, Cisco has found the pitch increasingly crowded in the last couple of years as its global rivals home in on the potential in India. China's Huawei, which has been consistently dogged by data security concerns, sought to make a statement when it announced a $2-billion investment in its India operations, covering R&D, sales and marketing. Smaller startups such as Juniper, too, are growing, by as much as 20 per cent per annum, according to India Managing Director Ravi Chauhan. Others such as HP (with its 3Com buy) is likely to make a bigger impact in communication technology, a segment Cisco has been edging into. "We are ahead of the competition and the market," claims Naresh Wadhwa, Cisco India chief. "When we moved to complete solutions, our rivals began selling boxes." He points to the state-run Accelerated Power Reforms Development Programme, where it bagged 11 of the 13 deals for smart metering solutions. While Cisco may own nearly three quarters of the market for Internet gear such as routers and switches, its dominance is not so pronounced in wireless local area networks and enterprise telephony, where it holds less than a quarter. This may just be the opportunity Huawei is eyeing. With mobile 3G services being rolled out, the Chinese equipment maker feels it is at the right place at the right time. "Huawei supplies 3G equipment to major telecom operators here," Max Yang, MD, Huawei India, recently told BT.

SUSHEELA VENKATARAMAN, Director, Internet Business Solutions Group, Cisco

"Technology is the answer to empower rural communities in the country"

Institute of Management Bangalore, or IIM-B, is trying to rewire these centres to make them more efficient and financially viable. CSCs have been beset by poor Internet connectivity, a narrow range of services and a lukewarm response from state administrations, getting reduced to mobile recharge shops and even petty stores. Up to 60 per cent of the CSCs are unviable, a recent IIM-B study found.

Cisco and its partners want to rewire these centres to provide a range of services. "Rather than just inputs such as agricultural prices, they could provide data on where to sell products, market forecast and weather conditions," says Gopal Naik, a professor at IIM-B. Cisco is starting small on the retooling, working on just four CSCs in Gubbi. "The eventual plan is to have a model for 250,000 centres to be established nationwide," he says.

Unlike its large enterprise business, Cisco's rural India drive is expected to leverage custom solutions, which are both cheaper and easier to install. Cisco says there are plenty of businesses to be tapped here and points to the potential overhaul of CSCs as just one example. "We require partners who understand the hinterland and can implement our projects," says Wadhwa.

Despite a raft of new projects, there is plenty of hard work ahead and challenges to overcome. The competition is intensifying, for one (see *Competition Calling*). In July 2010, Huawei launched a WiMAX (wireless over long distance) project in Rajasthan to provide broadband access to public service centres and village panchayats. Still, what Cisco has going for it is a high degree of familiarity with its products among local support engineers, says Richard Kramer, an analyst with Arete Research, a New York-based equity research firm. "It needs to learn from native emerging market companies like Huawei and Indian firms like Micromax or HCL, and figure out what makes them profitable at lower price points."

Some may say that is a tough task but Cisco executives remain upbeat and believe their discovery of Bharat has just begun. A journey that they hope will pay back handsomely when it takes these solutions and products to poor and middle-income markets elsewhere in the world. ◆

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The Royalties Rush

Higher royalty payments by Indian subsidiaries of foreign companies bring in better technologies but can hurt the interests of minority shareholders. BY MANU KAUSHIK

RAJAT BARAN

Back in 2000, Nestlé India was paying an annual royalty fee of ₹56.73 crore accruing to its parent company Nestlé SA in Switzerland. At 43.46 per cent of total profits, the amount was large enough to come under the scrutiny of India's income tax department, which promptly asked the company to justify the payment.

The tax authorities charged that of the three major services that the parent company rendered its New Delhi-based unit to justify the royalties in 1999-2000, just one — grant of licences to manufacture and sell some products — had actually been provided. Moreover, Nestlé India already had access to other two services much before it started paying hefty royalties to the parent following the economic reforms in the early 1990s.

Nestlé India disagreed. The case then moved to the Income Tax Appellate Tribunal, which ruled in favour of the company mainly on two grounds: Nestlé India's dependence on the parent firm in order to stay competitive, and lack of evidence to substantiate the charges made by the tax department.

Eleven years later, the bogey of royalties is back in the boardrooms of multinational corporations. The more recent trigger is a decision by the Ministry of Commerce and Industry in April last year to remove the cap on royalty payments to overseas parents.

Indian units of MNCs, like subsidiaries elsewhere in the world, pay royalties to their foreign parents for various reasons. For instance, auto and capital goods makers have to buy technical know-how and support via collaboration. Drug companies pay for marketing rights, while consumer goods firms fork out money for brand equity.

Nothing wrong in principle but there are two cause-effect scenarios to such payouts: one, higher royalties affect minority shareholders by way of lower net profits that can potentially be paid out as dividend. Two, such payouts have an impact on tax collections. Royalties are taxed at source at a rate of 10.56 per cent, and corporate profits at a rate of 42.23 per cent for foreign-owned companies.

Prior to April 2010, such remittances made by Indian resident firms to foreign collaborators were capped at a lump sum of $2 million and royalty payment at 5 per cent on annual domestic sales or 8 per cent on exports without prior regulatory approvals. If there was no technology transfer, royalty payments were permitted up to 2 per cent for exports and 1 per cent for domestic sales.

All such caps were removed retrospectively from December 2009.

And, foreign-controlled Indian units did not waste time. India's largest carmaker Maruti Suzuki hiked its royalty component to 5.1 per cent of net sales in April-June 2010 from 3.4 per cent in the preceding quarter, resulting in an additional payout to its parent, Suzuki Motor Corporation. The news did not go down well with investors and the Maruti scrip sank over 12 per cent to ₹1,191.45, a 52-week low then.

It wasn't just a short-term blip. Despite higher sales growth, the stock has depreciated by over 13 per cent in

COMPANIES PAYING SUBSTANTIAL ROYALTIES

MARUTI SUZUKI
Royalties: ₹1,018 cr
Percentage of PAT: 40%

GLAXOSMITHKLINE CONSUMER HEALTHCARE
Royalties: ₹70.38 cr
Percentage of PAT: 30.2%

P&G HYGIENE AND HEALTH CARE
Royalties: ₹52.51 cr
Percentage of PAT: 29.2%

ABB
Royalties*: ₹79 cr
Percentage of PAT: 22.3%

CASTROL INDIA
Royalties: ₹63.12 cr
Percentage of PAT: 16.6%

COLGATE PALMOLIVE
Royalties: ₹87.5 cr
Percentage of PAT: 20.7%

Figures for ABB, Castrol and GlaxoSmithKline are for the year ended December 31, 2009; others for the year ended March 31, 2010
*Royalties and technology fees
Source: BT Research

R.C. BHARGAVA, Chairman, Maruti Suzuki

"The royalty payout rates are same across different subsidiaries. It's unlikely payouts will increase in future"

the past seven months, in sharp contrast to peers such as Tata Motors and Mahindra & Mahindra, which have appreciated by over 52 per cent and 15 per cent, respectively during the same period. The 11-share BSE Auto Index has risen 6.5 per cent.

Today, Maruti Suzuki pays royalties on almost all of the 15 models it sells in India — except for the Omni, Gypsy and 800 models. Royalties as a percentage of net sales have gone up from 2.5 per cent in 2006-07 to 5.2 per cent in April-December 2010. If the company ends this financial year on net sales of ₹35,670 crore, as predicted by analysts, it will end up paying ₹1,800 crore to Suzuki Motor Corp. as royalties.

The reason for the rise in the royalty payments over the last few years, the Gurgaon-based company says, has been largely due to the introduction of new models such as Swift Dzire, Ritz and Eeco. It also pays royalties for the new K-series engine that powers cars such as Alto-K10, WagonR, Swift, Estilo, and A-Star.

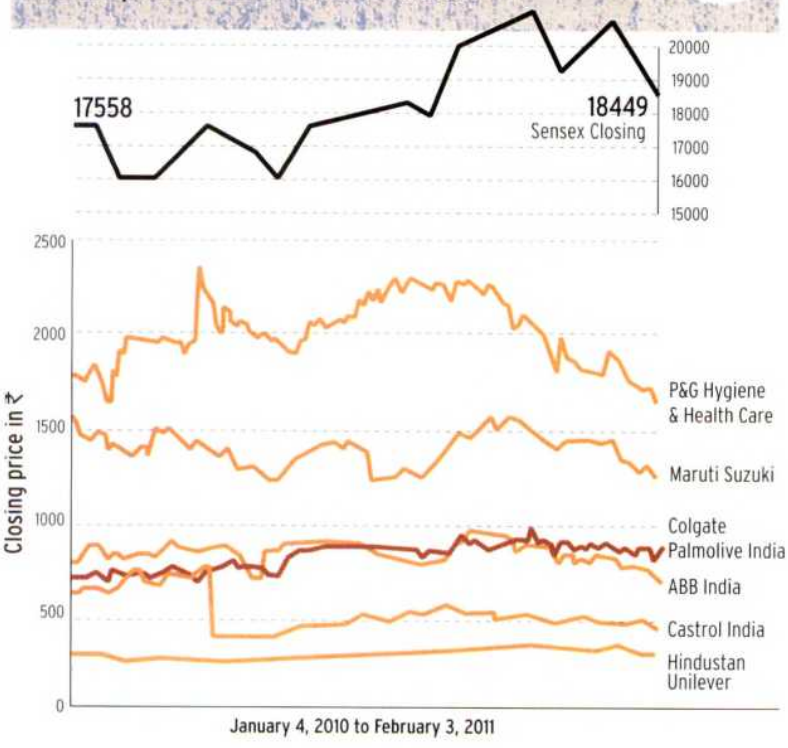
In an October 2010 report, Mumbai-based Kotak Institutional Equities punched holes in that argument. It pointed out that the research and development expenditure as a percentage of sales for various automakers — Honda Motor, Toyota Motor, Volkswagen, Ford Motor and Suzuki Motor — has averaged between 4 and 4.5 per cent over the past two years. The Hamamatsu, Japan-based company spent about 4.4 per cent of sales on R&D in the financial year ending March 2010, and within this limited framework, 5 per cent of sales being charged to Maruti as royalties seems on the higher side.

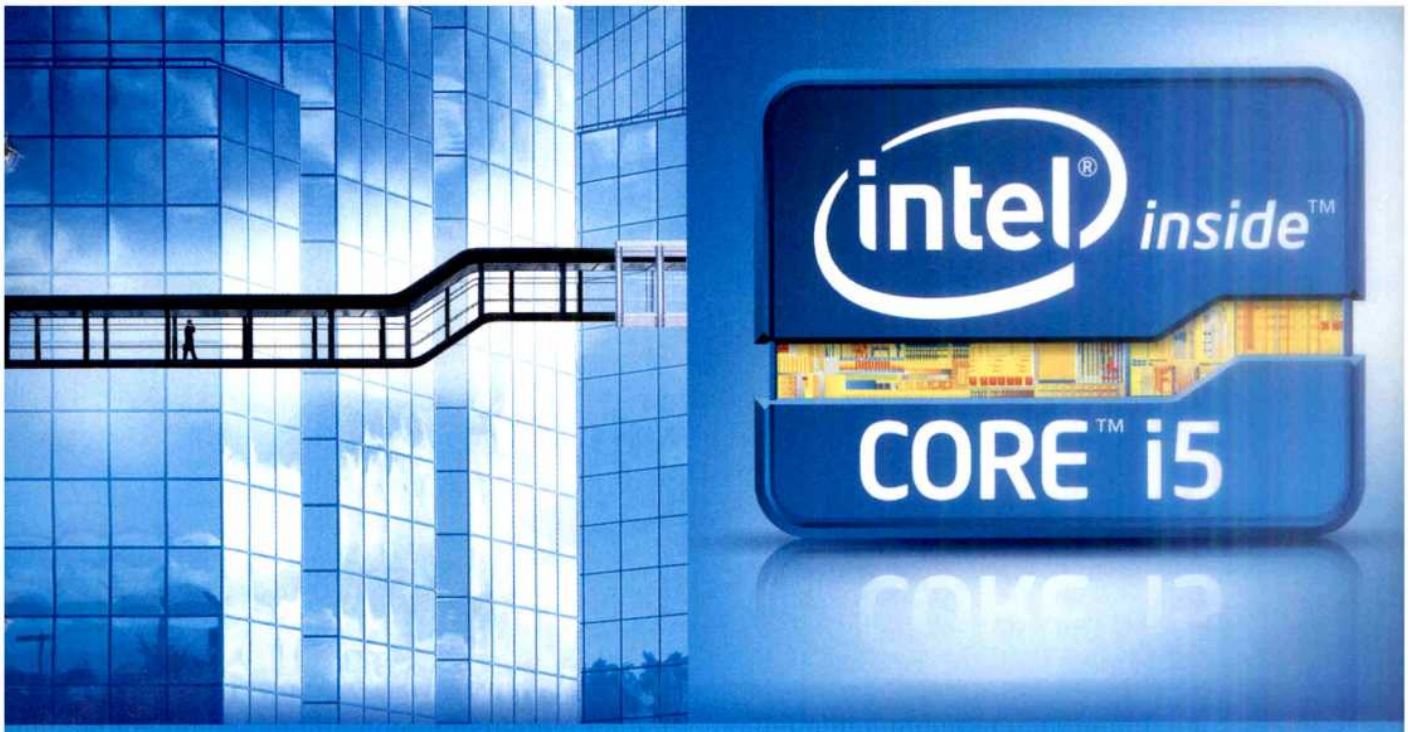
Adds Vineet Hetamasaria, auto analyst at Mumbai brokerage Pincmoney: "Maruti is a cash cow for Suzuki. The Indian market is one of the fastest-growing markets for Suzuki worldwide and the company wants to extract the maximum out of it. India is going to be the R&D hub for Suzuki. By 2012, Maruti will be spending close to 3 per cent of its sales on the in-house R&D centre coming up in Rohtak in addition to the existing royalty payouts." In effect, this will be 8.2 per cent of net sales if the current payout percentage continues.

Maruti is clear that its royalty remittances are now aligned to Suzuki's global standards. "In the past, Suzuki Motor made requests with the Indian government to let them raise the royalty charges from Maruti and make

ON A SLIPPERY ROAD

Analysts worry some foreign-owned companies in the FMCG and capital goods sector may increase their royalty payouts in future. This reflects in the share prices of a select few charted below





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them on a par with other subsidiaries globally, but the authorities did not allow this under the previous rules. Today, the royalty payment rates are the same across different subsidiaries," says R.C. Bhargava, Chairman, Maruti Suzuki. "It's unlikely that the payouts will increase in the future."

Analysts say minority shareholders feel cheated and the decision to hike royalties has marred the company's margins and free cash flows. "The increase in the royalty expense will result in additional royalty remittances of about ₹800 crore in the current financial year (over the past year). The decision has affected earnings and cash flows at a time when questions are being raised about Maruti's ability to sustain margins in the midst of rising competition," says Kaushal Maroo, analyst at Religare Capital Markets.

The bad news for minority shareholders is not restricted to Maruti alone. Consumer products leader Hindustan Unilever has increased its royalty payment to parent Unilever in recent times. From 0.7 per cent of sales in December 2009 to 1 per cent now, the spike happened as the Anglo-Dutch parent reworked its decade-old deal with the Mumbai-headquartered subsidiary on specific brands whose trademark is owned by Unilever. Religare estimates the increase has hurt Hindustan Unilever earnings by about 2 per cent.

Rival Colgate Palmolive India has raised its royalty payments by 20 basis points (as a percentage of sales) to 4.3 per cent in financial year 2010, says a Pinc Research report. "Colgate India pays royalty for brand name, licence and technology. It looks like a major part of that includes brand name because manufacturing techniques and processes provided by Colgate USA are common even among local FMCG players," says Aniruddha Joshi, FMCG analyst at Anand Rathi.

Analysts expect a similar hike in royalties by the Indian units of large engineering firms such as ABB, Areva T&D, Cummins and Siemens, which are listed on stock exchanges here. In fact, for ABB India, the royalties and technology fees have gone up substantially over the past three years. Despite a meagre 5 per cent sales growth and 28 per cent drop in net profit, the company's remittances on account of royalties and technology fees have gone up by 39 per cent between 2007 and 2009. ABB India pays royalties to the parent firm for trademark, technology used in making power products and support for bidding of projects outside India.

One reason, to be sure, for the removal of the cap is that a growing economy like India needs support by way of new technologies, products and brands. Parent companies spending huge sums of money on R&D need compensation, and regulatory barriers should not come in the way of sharing their expertise. But with so many companies making large royalty payments, it is difficult to analyse the fair value of such payments.

The tax department says its job is to find out whether the royalties paid are at an arms-length price or a rate at which two unrelated parties agree to a price. "Benchmarking intangibles such as know-how, patents, copyrights and trademarks can be challenging," says R.N. Dash, Director General of Income Tax, International Taxation.

Royalty payments are made by 75 companies in the BSE 500 universe and accounted for over 40 per cent of the total dividends declared in financial year 2008-09. Higher royalty payments seem to be a double-edged sword. While they promise the inflow of cutting-edge technology into the country, minority shareholders risk losing out on capital appreciation and dividends. ◆

THE ROYALTY HIT

How increased royalties by Maruti impact the bottomline

- **As royalties go up, the profit before tax declines by ₹781.8 crore and so does the tax payout by ₹244.4 crore, a loss to the exchequer**
- **A lower profit after tax affects minority shareholders by way of lower dividend and investible surplus**

	ACTUAL (FY 2010)	WITH INCREASED ROYALTY
Total Income	30,120	30,120
Total expenditure	25,669	26,450.6*
EBITDA	4,451	3,669
Interest	33.5	33.5
Depreciation	825	825
Profit before Tax	3,593	2,810.7
Tax Expense	1,123	879
Add: Deferred Tax	28.1	28.1
Profit after Tax	2,498	1,960.2

Figures in ₹crore

*Includes analysts estimate of ₹1,800 crore that Maruti Suzuki would pay parent Suzuki Motor as royalties under the new plan

To keep calculations simple, interest, depreciation and tax rate has been kept the same as actual

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UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED 31-DEC-2010

(Rs. In crore)

PARTICULARS	Unaudited				Audited
	Three months ended		Nine months ended		Year ended
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09	31-Mar-2010
	1	2	3	4	5
1. Net Sales / Income from Operations	**2,621.22**	**1,587.58**	**7599.19**	**4255.76**	**6,239.09**
2. Expenditure					
a) Increase(-)/decrease(+) in stock in trade	-34.57	-2.32	-71.74	-10.58	1.90
b) Consumption of raw materials	6.38	-	17.70	-	-
c) Consumption of Stores & Spares	51.09	51.24	138.66	138.93	209.45
d) Employees Cost	109.09	77.62	345.32	270.75	419.51
e) Selling Exps incl. Freight out	148.82	131.02	464.27	344.73	468.85
f) Depreciation & DRE	29.39	21.52	82.94	51.26	76.62
g) Royalty & Cess	258.60	155.90	597.58	229.15	360.61
h) Other Expenditure	65.92	95.86	199.96	239.75	356.54
TOTAL	634.72	530.84	1,774.69	1,263.99	1,893.48
3. Profit from operations before Other income, Interest & Exceptional items (1-2)	1986.50	1,056.74	5,824.50	2,991.77	4,345.61
4. Other income	294.72	211.51	762.42	616.15	861.71
5. Profit before Interest & Exceptional items (3+4)	2,281.22	1,268.25	6,586.92	3,607.92	5,207.32
6. Interest	-	-	-	-	-
7. Profit after interest but before exceptional items (5-6)	2281.22	1,268.25	6,586.92	3,607.92	5,207.32
8. Exceptional Items	-	-	-	-	-
9. Profit from ordinary activities before Tax (7+8)	**2,281.22**	**1,268.25**	**6,586.92**	**3,607.92**	**5,207.32**
10. Tax expense	763.19	431.18	2186.32	1226.25	1,760.06
11. Net Profit from ordinary activities after tax (9-10)	1,518.03	837.07	4,400.60	2,381.67	3,447.26
12. Extraordinary Items (net of tax expense)	-	-	-	-	-
13. Net Profit for the period (11-12)	**1,518.03**	**837.07**	**4,400.60**	**2,381.67**	**3,447.26**
14. Paid-up Equity Share Capital:	396.47	396.47	396.47	396.47	396.47
Face value per share	Re 1/-	Re 1/-	Re 1/-	Re 1/-	Re 1/-
15. Reserves excluding revaluation reserves	-	-	-	-	13,875.96
16. EPS for the period (Rs.)-Basic and diluted before and after extraordinary items	3.83	2.11	11.10	6.01	8.69
	(Not Annualised)				(Annualised)
17. Public share holding					
- Number of Shares	396,297,820	64,054,620	396,297,820	64,054,620	396,297,820
- Percentage of shareholding	10.00	1.62	10.00	1.62	10.00
18. Promoters and promoter group shareholding					
a) Pledged / Encumbered					
- Number of Shares	-	-	-	-	-
- Percentage of Shares (as a % of the total shareholding of promoter and promoter group)	-	-	-	-	-
- Percentage of shares (as a % of the total share capital of the company)	-	-	-	-	-
b) Non Encumbered					
- Number of Shares	3,568,418,180	3,900,661,380	3,568,418,180	3,900,661,380	3,568,418,180
- Percentage of Shares (as a % of the total shareholding of promoter and promoter group)	100.00	100.00	100.00	100.00	100.00
- Percentage of shares (as a % of the total share capital of the company)	90.00	98.38	90.00	98.38	90.00

Segment wise Revenue, Results and Capital Employed under Clause 41 of the Listing Agreement

(Rs. In crore)

PARTICULARS	Unaudited				Audited
	Three months ended		Nine months ended		Year ended
	31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09	31-Mar-2010
1. Segment Revenue					
(net sale / income from each segment)					
a) Iron Ore	2,613.22	1,584.04	7,568.15	4,246.32	6,222.60
b) Other Minerals & Services	19.30	3.54	60.89	9.44	16.49
TOTAL	2,632.52	1,587.58	7,629.04	4,255.76	6,239.09
Less: Inter segment revenue	11.30	-	29.85	-	-
Net sales / income from operations	**2,621.22**	**1,587.58**	**7,599.19**	**4,255.76**	**6,239.09**
2. Segment Results					
(Profit(+) / loss (-) before tax and interest from each segment)					
a) Iron Ore	2,029.89	1,080.28	5,943.65	3,073.68	4,496.01
b) Other Minerals & Services	-11.48	3.03	-19.12	19.80	8.98
TOTAL	2,018.41	1,083.31	5,924.53	3,093.48	4,504.99
i) Less: Interest	-	-	-	-	-
ii) Add: Other unallocable income net off unallocable expenditure	262.81	184.94	662.39	509.44	702.33
Total Profit before Tax	**2,281.22**	**1,268.25**	**6,586.92**	**3,607.92**	**5,207.32**
3. Capital Employed					
(Segment assets-Segment Liabilities)					
a) Iron Ore			1,638.02	1,334.86	1,392.10
b) Other Minerals & Services			130.36	98.48	90.78
c) Other Offices			16,938.29	12,284.37	12,852.45
TOTAL			18,706.67	13,717.71	14,335.33

NOTES:

1. The Board of Directors has approved in its meeting held on 01-Feb-2011, an interim dividend of Rs 1.15 per equity share for the financial year 2010-11.
2. M/s. Sponge Iron India Limited, Hyderabad, has merged with the Company w.e.f 01-07-2010, in accordance with the orders of the Ministry of Corporate Affairs. The operating loss between the appointed date i.e., 30-JUN-2008 and 31-MAR-2010 amounting to Rs. 36.31 crore has been adjusted against the General Reserve. The accounts of the unit have been incorporated from 01-APR-2010. The impact of the operating results of the unit on the accounts is not significant.
3. a) Action has been initiated to sell the plant and machinery of Silica Sand Project, Lalapur.
   b) There is no significant change in the status of UPFO plant, which is under 'care & maintenance'.
4. The Company has received 263 complaints from investors (mainly in connection with FPO) and all of them have been disposed off; therefore, complaints lying unresolved at the quarter ended 31-DEC-2010 be treated as "Nil.".
5. The above results have been reviewed by the Audit Committee at its meeting held on 01-FEB-2011 and approved by the Board of Directors at its meeting held on 01-FEB-2011.

For and on behalf of N M D C Limited

Sd/-
(Rana Som)
Chairman-cum-Managing Director

Place: New Delhi
Date: 01-FEB-2011.

Our website: www.nmdc.co.in

PROBLEM
Handloom weaving has become an unsustainable enterprise and weavers are deserting it for other sources of livelihood

CAUSE
Rise in input prices, abysmal wages, lack of marketing avenues and designs

SOLUTION
A new business model, greater access to working capital and large-scale capacity building

CHALLENGE
Multiple agencies involved and many decisions still linked to government response

Hanging by the Thread

Rising input prices coupled with poor access to capital and markets are pushing weavers into other professions. BY E. KUMAR SHARMA

Threadbare existence: Ganji Lakshmi at work in her pit loom

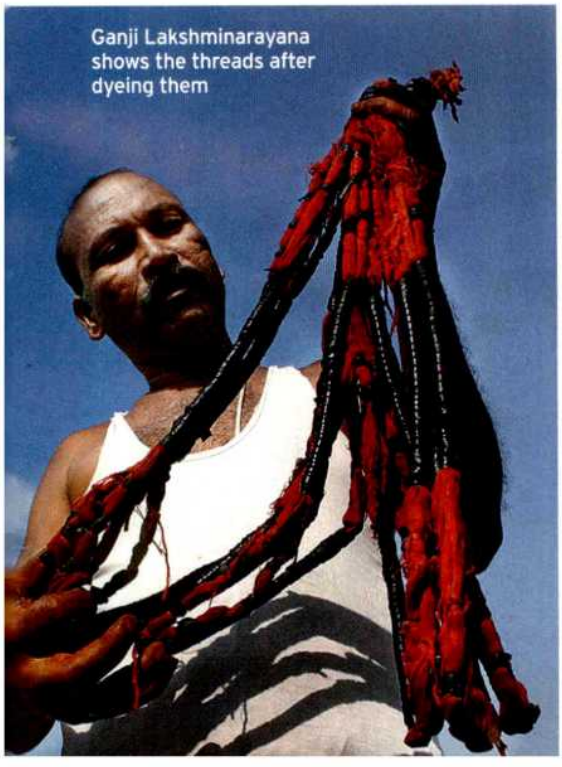
"We do not wake up to the sounds of the looms any more," laments Eluri Lakshmi. The 35-year-old is waiting with her two daughters for her husband Eluri Srinivas to show BT the working of their pit loom. And in the process, break the eerie silence of the Padmashali colony in Ramannapet *mandal* of Nalgonda district in Andhra Pradesh, an important handloom cluster where weavers produce the famous Pochampally sarees that are woven using the *ikat* technique. *Ikat* involves dyeing on either the warp or weft fibres and then weaving the exquisite cotton or silk threads into sarees with geometric designs.

"This was a noisy area five years ago, with around 100 looms operating. Today, just seven households rely on weaving as their only source of income," says Ganji Lakshminarayana, a few blocks away.

"Most are seeking other sources of livelihood," says the 48-year-old, who has given up the skill he practised for over 35 years. Four months ago, Lakshminarayana joined a local security service agency to work as a guard. "Making both ends meet was getting increasingly difficult with the rising input prices. A spike in food prices also added to household expenses. It was just getting unsustainable." Cotton yarn prices have almost doubled in the past one year, he says. Silk, the other crucial input for Pochampally sarees, nearly doubled in the last five years to over ₹3,000 a kilo. Just 18 months ago, it was hovering around ₹2,100. The pain point: all of this is without a proportionate rise in the product price or the wages. For instance, the price of a ordinary silk saree today varies between ₹2,500 and ₹3,500; it was not very different a few years ago. The daily wage for the weaver has remained stagnant, and in Andhra Pradesh, it varies from ₹60 to ₹450 per day depending on the skill and output. The average, most feel, would be around ₹100 — a sum any worker can earn from a 10-to-5 job under the Mahatma Gandhi National Rural Employment Guarantee Scheme.

"On an average, there has been a 30 per cent fall in handloom production in Andhra Pradesh, and between 30 and 50 per cent nationally because of the high yarn rates," says Donthi Narasimha Reddy, who has tracked developments in the Indian handloom sector for around 15 years. Reddy advises Chetana Society, a non-government organisation involved in creating awareness and capacity building for weavers in regions like Nalgonda. "Of the total 3 lakh handloom households in the state, there are 15,000 in the Pochampally cluster, and the production volumes fell to 15.5 million metres (pegged at ₹542.5 crore) in 2010 from the previous year's 22.1 million metres (worth ₹607.75 crore)." As for the state, he says, the 3 lakh handlooms produced 309.3 million metres (pegged at ₹10,825 crore) in 2010 as against 441.9 million metres (worth

PHOTOGRAPHS BY A. PRABHAKAR RAO



Ganji Lakshminarayana shows the threads after dyeing them

Eluri Lakshmi gets the dyed threads ready for the weaving process

Think out of the box

Since 2004, the handloom sector has been assigned to me as a Member of the Planning Commission. In most of the clusters I visited, there was deprivation and exploitation. I looked at their skilled hands which were pounding stones or digging earth. Children were not learning skills of their parents. Instead, they were pulling rickshaws, picking rags, building roads... doing anything but weaving. I rued that these youth would never see a *himroo* weave, a *kaani* shawl or know the *kamkhwab* fabric which was woven for the Mughal royalty. India's post-Independence USP is getting lost. Without a massive effort it will be the end for most weaves — *jamdani, Kanjeevaram, tangail, kota doria, tanchoi, Bhagalpuri, ikat, gadwal, paithani*... I could go on.

Next to agriculture, handlooms (and handicrafts) create the highest employment in the country, but the per capita income of these workers is no more than ₹50 a day. The government schemes are of two kinds: either pertaining to welfare such as life insurance or health insurance, or creating clusters for access to common facilities. Tagged on to these are schemes of financing, buyer-seller meets, subsidies and upgrade of work spaces.

Out-of-the-box thinking could push this sector on the global map. Schemes we have been pushing for years will just not work. Had they worked, there would have been visible improvement. The Weavers' Service Centres have not worked. Designing needs to be much more savvy and aggressive. The other part of our effort should be to shore up the supply side by making credit freely available, getting designers and entrepreneurs, and giving a free rein to creativity. Handloom budget is a very small percentage of the whole, agreed. But is pumping more money into non-viable schemes the solution? Or should we restructure the entire system? The neoliberal philosophy is to let the "sick" sectors fade away. But can we afford to?

Syeda Saiyidain Hameed,
Member, Planning Commission

₹12,152 crore) in 2009. Nationally, the industry has a turnover of around ₹60,000 crore.

En route to Koyyalagudem, a village in the neighbouring Choutuppal *mandal*, we meet Kasturi Chandrasekhar. The 30-year-old does a a brisk business dishing out cutlets for ₹7 a plate and *panipuri* for ₹5 a plate from his roadside pushcart. "I have paid back the ₹10,000 loan I had taken to buy the pushcart. I am earning ₹5,000 a month as against ₹3,500 I earned as a weaver," he says.

It is not without reason that the National Council for Applied Economic Research, or NCAER, an economic think tank, points to some worrying trends in its just-released 2010 Handloom Census. "The average handloom worker earns a little more than those on the poverty line. The average nationally is around ₹36,096 per annum; it is ₹28,305 in Andhra Pradesh," says Rajesh Shukla, director, NCAER-Centre for Macro Consumer Research, or CMCR, and the team leader of the census report which was released in December 2010. Though the census has not combed all regions and a second round of survey is being planned, Shukla says the total number of weaver households in the country is down to 22.7 lakh in 2010 from 25.3 lakh in 2005. Plus, it points to a clear threat perception from the powerloom sector. "Only 25.3 per cent of the households were positive about their children continuing in the trade," he says.

"If the current trend continues, there will be no significant craft left in the next five to seven years," says William Bissell, Managing Director of Fabindia, which does a thriving business in traditional crafts by joining hands with artisan groups. Bissell advocates at least three times the minimum wage for the weavers but is not for subsidies, saying that it will kill the industry. Instead, he favours laws to ensure protection of India's intellectual property.

In a sector where cooperatives have largely failed, Fabindia has built a model where products come from over 21 states. The company's supply chain is arranged around 16 community-owned companies, or COCs, facilitated by the

A Fabindia store in Delhi

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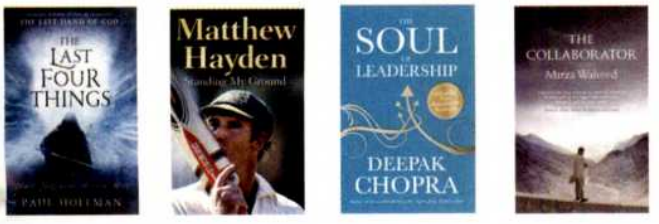

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unique micro-credit mechanism or Artisans Micro Finance, a wholly owned subsidiary. These COCs act as aggregation points, and are structured in a manner that enables active participation of artisans and craftsmen as suppliers and shareholders.

Jane E. Lynch, a doctoral candidate from the University of Michigan, who is researching the sector and has been to Kutch, Ahmedabad, Kolkata, Hyderabad, Jodhpur, Jaipur, Sanganeer, Maheshwar, Indore and Delhi, feels there can be a way out with community-owned entities (like Fabindia), and through investments in training like those offered by Kala Raksha Vidyalaya, an NGO in Kutch. "The NGO provides training to young artisans to develop their skills. The training also includes introducing them to the kinds of urban markets and consumer demands for them to be successful in the broader market and be less reliant on intermediaries." Companies like Fabindia and Anokhi, operating with different business models, she says, have been successful in connecting handlooms and other craft products to consumer markets. Other initiatives like Dilli Haat, which provides a vibrant retail forum not only for weavers but also for other craftsmen, seem to be thriving.

Chandrasekhar, a weaver, sells chat on a roadside pushcart

Even government officials agree. "Apart from better marketing avenues and good designs, access to working capital is a major problem. Every weaver typically needs about ₹25,000 working capital to start with and since they have no land assets, banks are not willing to support them," says I. S. Naresh, Director of Handlooms and Textiles, Andhra Pradesh. To tide over such problems, the department proposed a ₹1-lakh loan at 4 per cent interest (Pavala Vaddi scheme), but the scheme is still pending. It will cover 250,000 families over a five-year period.

While the working capital may take some time, the weavers from Andhra Pradesh have found a reason to celebrate. Sixty-one-year-old Gajam Govardhan, who has experimented with *ikat* dyeing and weaving, was awarded a Padma Shri. "The era of cooperatives is over and we need to replace it with a direct procurement system. The government could create access by innovative policies, such as the tax breaks given to IT companies, for promoting handloom products."says Govardhan, a master weaver with close to 1,000 weavers working for him. Not only has he built own customer base, but he also exports directly. Now that is called spinning a success story. ◆

Contract Weaving

Think Indian fabrics, and the Banarasi saris, *Kanjeevaram* silks, apparel and home décor fabrics woven by handloom weavers come to mind. Yet, despite willing consumers, the Indian handloom sector faces a paradox. The producers of these exquisite products, the skilled handloom weavers, are today seeking to leave the profession. Even with the emergence of retail outlets to showcase their work, not all these artists get a "fair" percentage of the final price paid by the consumer. This situation is due to the inability of these craftsmen to market and distribute their products effectively.

While some retailers have figured out how to work with these craftsmen, most face several hurdles, including lack of production schedule, consistency across products, small batch sizes and defects. What is needed is a comprehensive effort where an ecosystem is created to help craftsmen deliver what buyers need, and monitor buyers to ensure that they do not exploit these craftsmen.

Pepsi faced a similar problem when it entered India and tried to source potatoes and tomatoes. What it found were crops which varied in size, colour, taste and texture. It cracked the problem with contract farming. This approach can be extended to cover handloom products. If a private or government organisation works with these craftsmen, develops standards for production, sets a production schedule and guarantees purchase of output at a fair price, this unique Indian art may just avoid extinction.

- Rishtee Kumar Batra, Assistant Professor of Marketing, Indian School of Business

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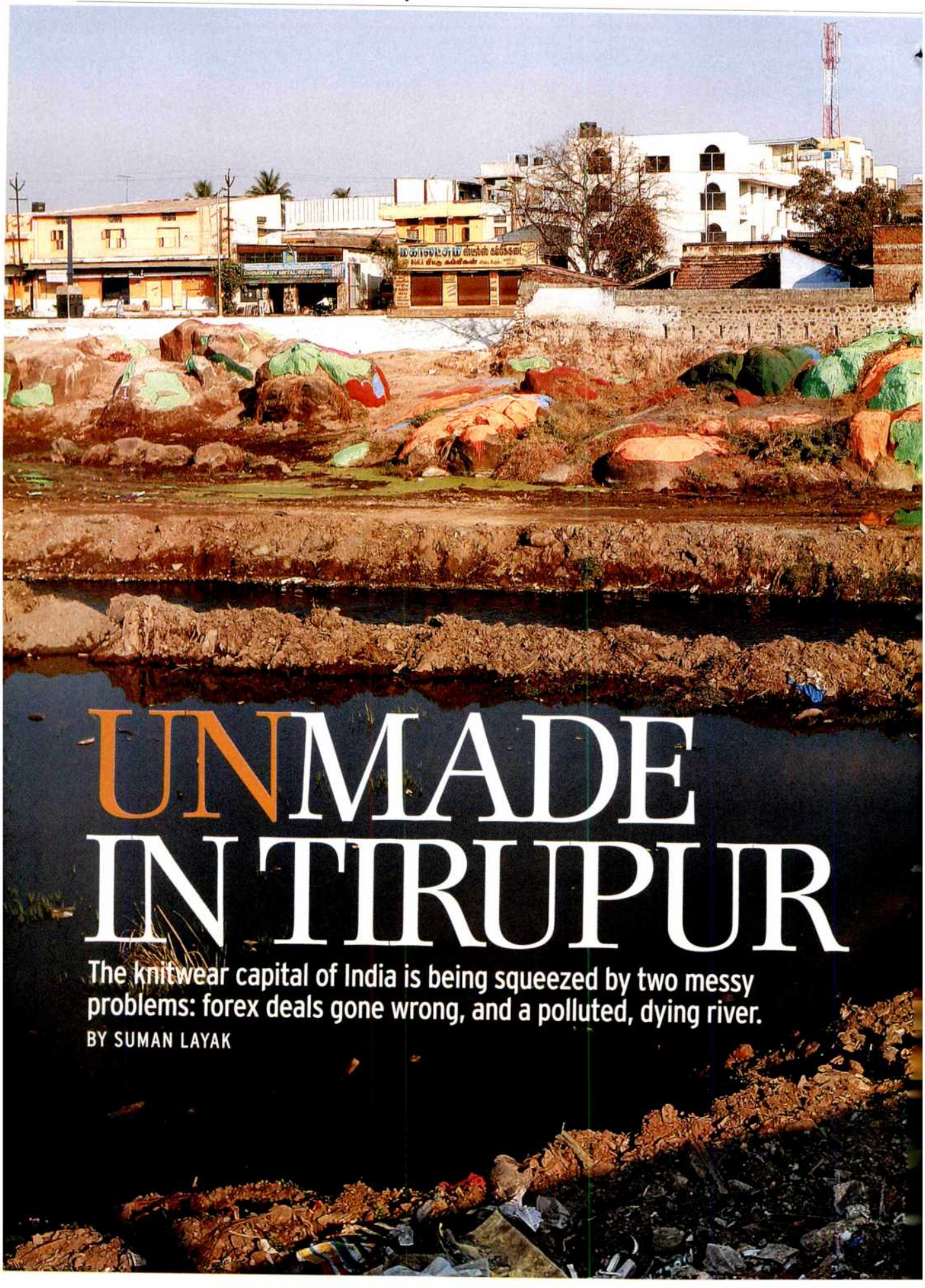


UNMADE IN TIRUPUR

The knitwear capital of India is being squeezed by two messy problems: forex deals gone wrong, and a polluted, dying river.

BY SUMAN LAYAK

Noyyal river, now carrying only waste water

PHOTOGRAPHS BY NISHIKANT GAMRI

Unlike N.R. Narayana Murthy of Infosys Technologies, E. Palanisamy has not created any millionaires out of his employees. But, Palanisamy, 65, says proudly: "In 40 years, I have helped at least 100 employees become business owners."

Like Infosys's hometown Bangalore, Tirupur in Tamil Nadu evokes images of big-time entrepreneurship. Today, the knitwear capital of India, which got going in the late 1980s, racks up exports of around ₹12,000 crore a year. Among its customers are global brands such as Levi's and Reebok.

End of Story. The End? What happened to the rest of the script?

Well, Tirupur the knitwear hub is threatened by two prolonged developments that have boiled over. One, in 2007, some smart big-city banks sold exotic foreign exchange contracts to the hosiery units here. The deals turned sour, and the units were left holding the can: a combined loss of ₹300-400 crore.

Two, after a prolonged battle by citizens to clean up the nearby Noyyal river, which had become a drain for all effluents from dyers and processors, the Madras High Court has ordered all the common effluent treatment plants or CETPs to shut down. The reason: the CETPs have failed to ensure zero liquid discharge as promised. The 800-odd dyeing units cannot function without CETPs.

Palanisamy's Armstrong Knitting Mills makes T-shirts and vests for the Swiss brand Migros. It faces a crippling ₹30-crore loss arising out of derivatives contracts marketed to it in 2007, when the dollar was falling sharply. A cheaper dollar means fewer rupees for an exporter, so hedging was not new to Palanisamy. But his bank, instead of giving a simple protection against fluctuations in the dollar-rupee rate, sold exotic contracts that offered a hint of quick profits. The contracts paired the dollar with the euro, the Swiss franc or the Japanese yen. So when the dollar fell against the Swiss franc, there was a bloodbath. The contracts limited the loss for the banks, but not for the Tirupur units.

More worrying is the January 28 Madras High Court order calling for the closure of all CETPs. The court has told the units to move the Supreme Court if they wish.

Already, one-fifth of the exporters had shut down in 2010, when raw cotton prices doubled over the levels in 2009. Add the 20,000 jobs lost over the past two years, the closures arising out of the court order, the derivatives hit and the ₹300,000 crore or so that the banking industry has invested in Tirupur so far — and you have a nightmare.

A Loss is Contracted

Tirupur is synonymous with enterprise: 25 years ago, it was not even a *taluka* or subdivision of a district, but the drive of its knitwear entrepreneurs put it on the world map. In 2008, the state government carved out an eponymous district with the town as the headquarters.

But, while Tirupur has become a global player, the village has not gone out of the town: at most offices, visitors are expected to take off their shoes at the door. Outer walls of houses and offices sport the images of the demon Kirtimukha — said to be created by Lord Shiva and later blessed by him — to ward off the evil eye. May be

Knitwear Capital Was Doing Well...

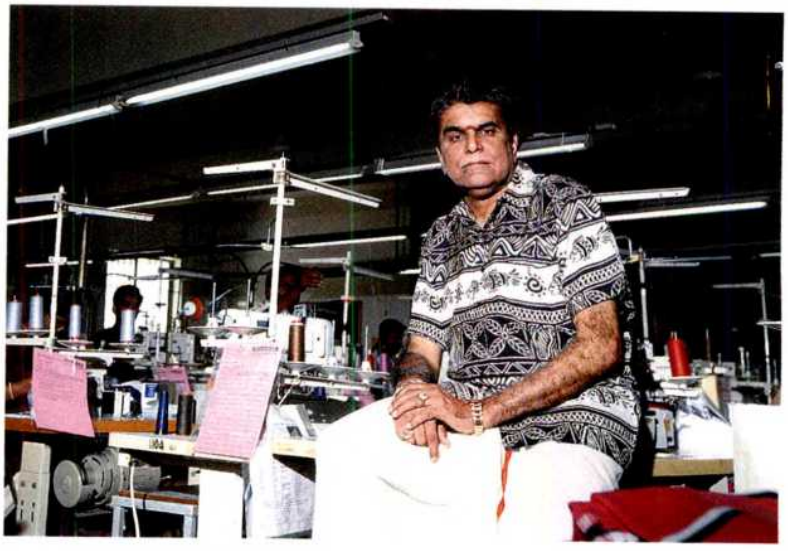
- Tirupur units account for 80 per cent of India's hosiery exports; employ 500,000 people
- Clients include Levi's, Wal-Mart, Diesel, Tommy Hilfiger, Migros and Tom Tailor, among others
- Exports began in 1978, hit ₹18 crore in 1985 and ₹11,000 crore last year
- Tirupur's exports account for 3.5 per cent of Tamil Nadu's economy

... Before it Got Hit by Derivatives Losses...

- Exporters were sold exotic forex derivatives in 2007-09 to protect them against the falling dollar
- The contracts were linked to currencies other than the rupee
- When they defaulted, the banks reported them to credit bureaus
- Now banks ready to share losses, exporters want no-profit-no-loss

... And Court Order Crippled Dyers...

- The high court banned 20 common effluent treatment plants or CETPs on January 28
- Ban will kill 700 dyeing units that send effluents to the CETPs



A. SAKTHIVEL, President, Tirupur Exporters' Association

"We take our orders from foreign companies on a six-monthly basis, but cotton and yarn prices have jumped every week over the last year"

Kirtimukha was not alert enough in 2007, when banks landed up at Tirupur's doorsteps with exotic forex contracts.

Raja Shanmugham, who heads the Forex Derivative Consumers' Forum, formed after the crisis, faces a loss of ₹2.8 crore. This is big enough to sink Shanmugham's Warsaw International, which exports ₹5 crore worth of knitwear a month.

Shanmugham says: "In the second quarter of 2007, there was an unprecedented fall of the dollar against the rupee from 46 to 39. We saw profits erode from when the dollar was at 43." This is when the banks entered the picture. The going looked good initially and the exporters made a few lakhs each. But, when the dollar rebounded, their losses ran into crores of rupees.

Shanmugham's group then roped in S. Gurumurthy, a chartered accountant better known as a mediator in business family feuds such as the one in the Bajaj family, and for his role as co-convenor of the Swadeshi Jagran Manch. The forum petitioned the Parliamentary Standing Committee on Finance and the Reserve Bank of India. Pravanjan Patra, a Cuttack-based tax lawyer, moved the Orissa High Court in May 2009, alleging that huge amounts of money had been siphoned out of India through these exotic instruments. The Central Bureau of Investigation was called in.

The case is now in the Supreme Court following an appeal by the Fixed Income Money Market and Derivatives Association of India. The Indian Banks' Association has joined it with an intervener petition.

Shanmugham, who had once aspired to join the Indian Administrative Service, says: "We trusted the banks like our

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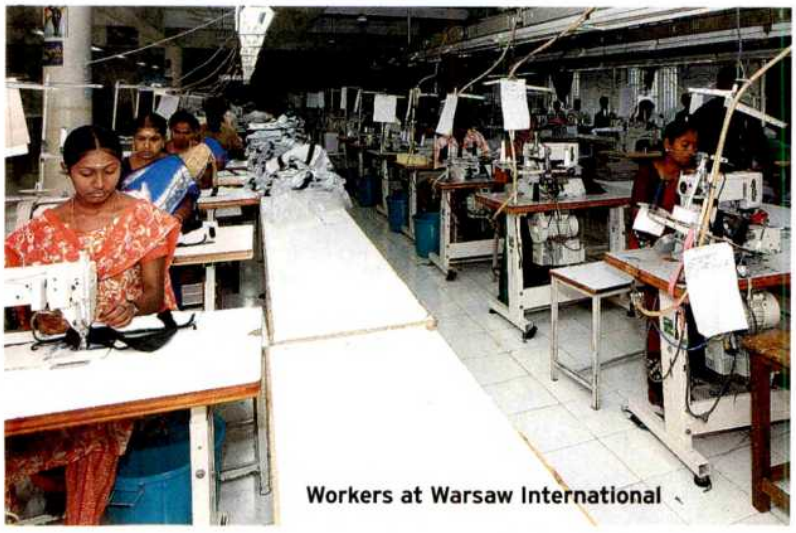

Workers at Warsaw International

godfathers. They sent men in suits with laptops, telling us how we would face no risk. Our executives were taken on foreign junkets. Now see where we have landed." He and the others have filed separate civil suits in the district court against the enforcement of these contracts.

Waste Not: Not Even a Drop

The 20 CETPs, some set up in the 1990s and later, and some after 2006 following a high court order, burn firewood to evaporate the water from the effluents: Firewood is cheaper than electricity here.

When the Noyyal River Ayacutdars Protection Association moved the Madras High Court in 2006 against the polluters, the dyers gave an assurance that there would be zero discharge into the river. The CETPs adapted to this and were approved by the Tamil Nadu Pollution Control Board or TNPCB. But they failed to ensure zero discharge. The Madras High Court stepped in when a contempt of court petition was filed by those lobbying for a clean Noyyal.

P.H. Shanmuha Sundar, who runs the Mannarai CETP, says: "There were 28 units sending their effluents to this CETP. Six have closed down as they could not bear the costs."

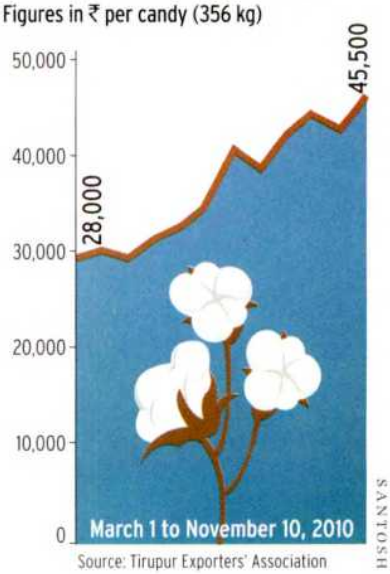
Each dyeing unit has to pay around ₹5 lakh a month to its CETP, and also a share of the interest on the loan taken to set up the CETP.

Sundar, a Masters in mathematics who wanted to be a professor before he changed his mind and got into dyeing, says the dyers tried various cost-saving options like running their plants only three days a week.

In December, the TNPCB shut down five CETPs, sealing the fate of 130 dyeing units linked to them. Around 100 dyeing units had closed earlier.

Cotton Price Shocker

Figures in ₹ per candy (356 kg)



Source: Tirupur Exporters' Association

HSOLNVS

A. Sakthivel, the president of the Tirupur Exporters' Association, has been the face of the association as well as the industry in Tirupur for the past 18 years. The son of a police officer, Sakthivel trained as an automobile engineer in Jamshedpur. But when he found that people in Tirupur did not care much for an engineer, he set up a hosiery unit.

Sakthivel says the sharp increase in cotton prices has already forced a fifth of the exporters out of business. "We take our orders from foreign companies on a six-monthly basis, but cotton and yarn prices have jumped every week over the last year," says Sakthivel, who is also a former president of the Federation of Indian Export Organisations. Many chose to not take up fresh orders.

Sakthivel wants the government to calibrate the export of cotton and yarn. "Allow only five lakh bales of cotton and 50 million kg of yarn to be exported each month," he says. His argument: Export of one kilogram of cotton yarn fetches around ₹220, while the same weight of garments earns ₹850 — and provides work to more people.

Sundar, whose CETP is struggling to eliminate the last 15 per cent of the water from the effluents it processes, says zero discharge is impossible.

Two solutions are on the table. One is to build a pipeline to send the leftover effluent out to the sea. The other is an idea hatched by Kalidas, whose dyeing unit had to close down in December 2010. Kalidas points to the natural evaporators used in Europe. The effluent, instead of being boiled, is cascaded over a series of wooden structures, which breaks it into droplets. The hot sun does the rest.

Kalidas had tried a natural evaporator 10 years ago, but the TNPCB did

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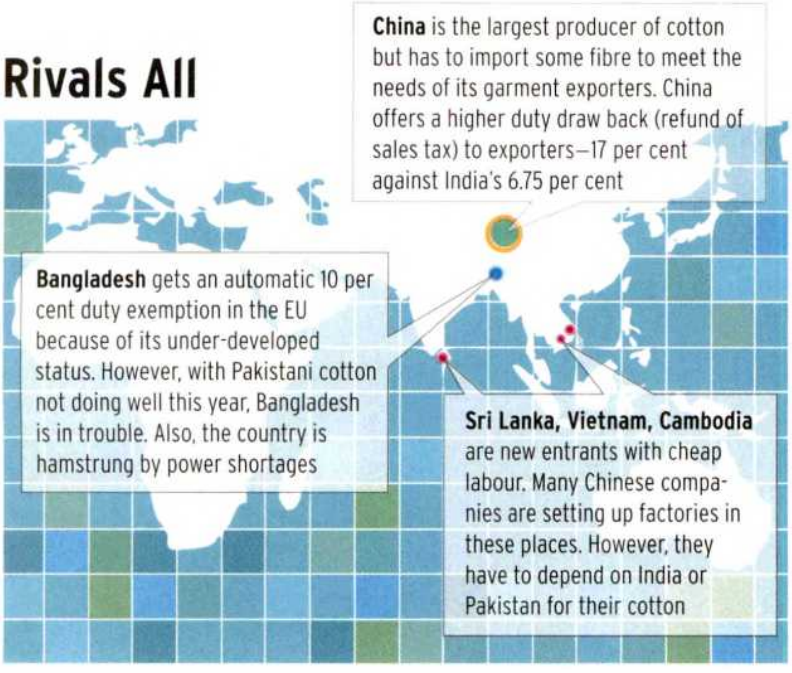
not approve it and he had to give up the idea. A new pilot project has been started and Kalidas has got the Indian Institute of Technology, Madras, interested in it.

Shanmugham of Warsaw likes Kalidas's evaporator. "This natural evaporator creates ozone molecules and people in Germany flock to such evaporators to inhale the ozone. We will create health tourism around the natural evaporators," he says.

Rivals All



Some Hope, Some Spit

There is hope yet for Tirupur, since its rivals in China and Bangladesh are being priced out of the market. "The competition is China and Bangladesh and both are turning uncompetitive," says S. Dhanajayan, a chartered accountant in Tirupur. China is facing higher wage costs, while the units in Bangladesh are suffering from power cuts.

Anand Sannasi, COO of Exim Knits, which makes vests and T-shirts for Levi's, says he does not have to go looking for orders nowadays. "People from Europe and the US are visiting us regularly to place orders," he says.

Sannasi says there is new competition from Vietnam and Cambodia but these countries have to import their cotton. Even China, the world's largest cotton grower, has to import cotton to feed its industry. "In India [the second-largest cotton producer] we have our own cotton and it can be a big advantage for us," says Sannasi.

But Tirupur has not been able to make the most of its advantages. The exports have been flat after rising to ₹11,000 crore in 2006-07.

Another example illustrates the gap between global aspirations and Indian reality. TÜV SÜD, the German certification agency, has a laboratory in Tirupur for testing garments and training companies on standards. Everything is fine, but for the alkalinity that it often detects in the garments made for exports. The alkalinity comes from human saliva. Go figure that.

The rapid growth and subsequent gloom over Tirupur's industry have created a powder keg of emotions: the town is India's new suicide capital. According to official data, 1,000 people committed suicide in 2009 and 2010. Of the 565 suicides recorded last year, 245 had consumed poison, 188 hanged themselves and 59 consumed cow dung powder, which is marketed as a disinfectant. (The government has since banned the sale of this lethal powder.)

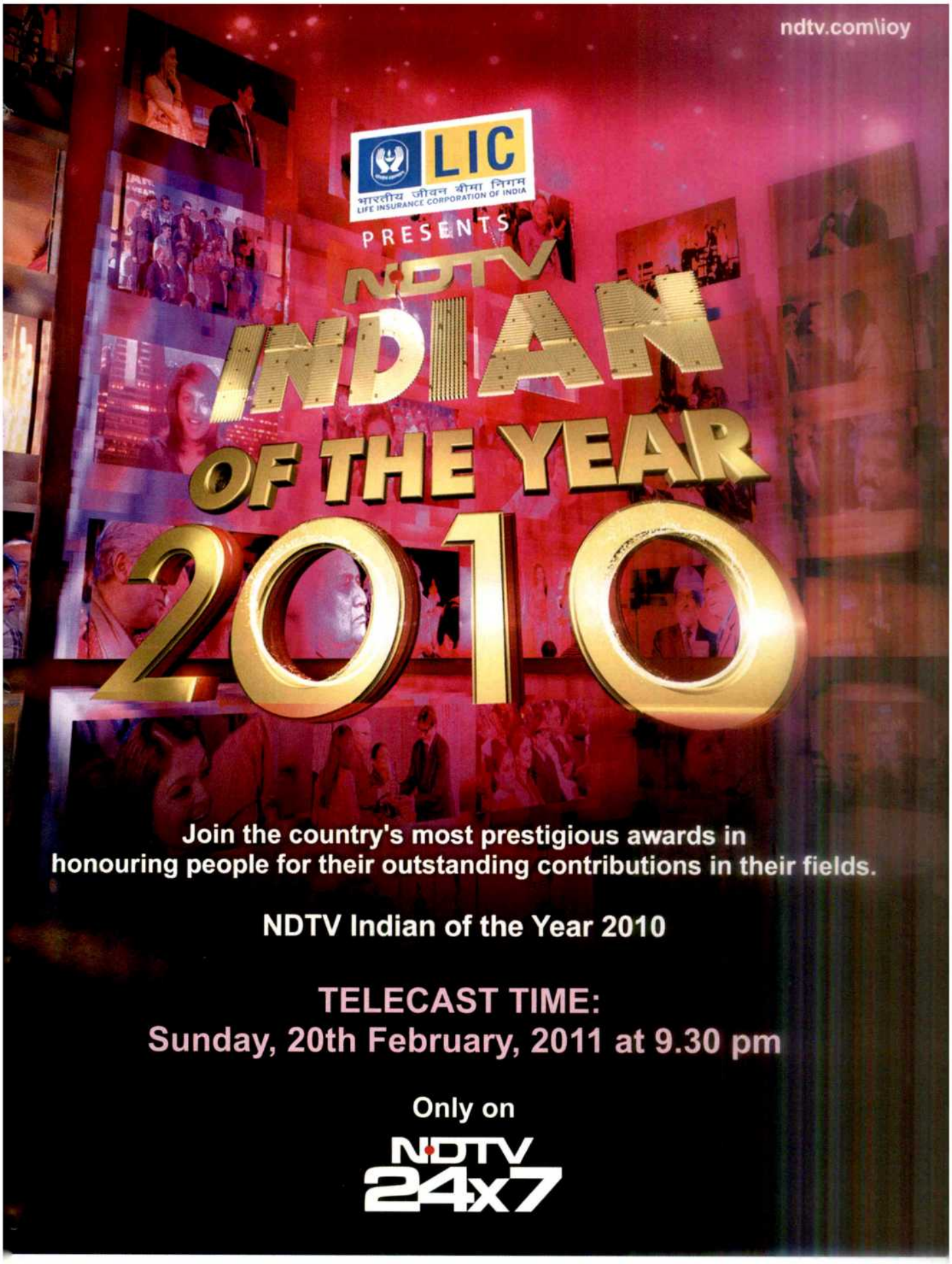
There are around half a million migrant workers in Tirupur, from within Tamil Nadu and other states. One such worker, Vijay Kumar, 22, from Narayanpur in Nepal, has been working in Tirupur for the past four years. He had been to his village last year, but is yet to see his daughter, born there last December. Another, I. Ramjan, 25, has seen her husband move to Chennai for a job, leaving her behind with their two-year-old son. Every rupee counts in their family.

The presence of this huge migrant workforce has led to a breakdown in social mores in Tirupur. A. Viakulamary, who works for a non-governmental organisation or NGO, says there are no red light areas in the town — but even so the NGO has to run an AIDS counselling group. "The men tell us that they have no idea when they might get a girl. There is no way to plan for sex and carry condoms," she says.

For the first decade of Tirupur's existence, it was the workers who kept alive the spirit of enterprise. Palanisamy says that most employees who left to set up their own businesses did so before 1990. Some more did in the next decade — but hardly any employee has ventured out since 2000.

Entrepreneurship is becoming costlier, tougher and demanding. Tirupur needs some hand-holding. ◆

ADDITIONAL REPORTING BY N. MADHAVAN



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"Necessity Is the Mother of Innovation"

Innovation in India is not just about patents filed but about affordable scalable solutions.

Clockwise (top to bottom): Thomas Stewart of Booz & Company, Som Mittal of NASSCOM, Gavin Michael of Accenture, Soumitra Dutta of INSEAD, and Gururaj Deshpande, the serial entrepreneur

At the NASSCOM *India Leadership Forum held in Mumbai last fortnight,* Business Today *got together an eclectic collection of thinkers to brainstorm about one topic: How important is innovation in the emerging world order? The hour-long discussion saw* **Gururaj Deshpande**, *serial entrepreneur;* **Soumitra Dutta**, *Roland Berger Chaired Professor of Business and Technology, INSEAD;* **Thomas A. Stewart**, *Chief Marketing and Knowledge Officer, Booz & Company;* **Gavin Michael**, *Global Managing Director,* R&D *and Alliances, Accenture; and* **Som Mittal**, *President,* NASSCOM, *talk about what it will take for India to become a global innovation hub. The discussion was moderated by* **Chaitanya Kalbag**, *Editor,* Business Today. *Edited excerpts:*

Kalbag: What areas do you think India needs to focus on to leapfrog from a service-driven economy to one that is a global leader in innovation?

Stewart: You can look at innovation in India in two ways. One, the innovation is fostered by Indian companies. Two, India is a destination for innovation for companies like Accenture. If you look at the Indian innovation, it is relatively small as a percentage of GDP compared to China and the United States. On the other hand, India is the second most popular destination for inbound R&D after China, according to the studies we have done at Booz. Strong domestic markets, a history of entrepreneurship, a talented workforce, and the rule of law make India an attractive destination for innovation. India's strategy for innovation should be to capitalise on these aspects and make it a target for other people's innovation... in the hope that it will spur more domestic innovation.

Deshpande: Necessity is the mother of innovation. There are two necessities (from an innovation point of view) in India. One, large numbers... everything is in millions. Second, very low affordability. So the next wave of invention in India will not be measured in patents but will be about coming up with solutions that are extremely affordable and can be scaled. For example, take the Akshaya Patra midday meal programme. It costs 12 cents a meal and they build these kitchens for 180,000 meals. Today, they have scaled to 1.3 million meals a day. That's real innovation going on in India. Innovation is contextual. For example, if you ask the MIT to come up with a midday meal programme for India, they will probably do it for $5 and won't realise that it is $4.88 too expensive for India.

Strong domestic markets, entrepreneurship history, and a talented workforce make India an attractive destination for innovation

One change which has happened in India is that failure is no longer a bad word. People are willing to experiment

Dutta: For any kind of innovation or change to happen, be it in a country or an organisation, you should be able to inspire people. And that's happening in India. Let me give you an example. About a year ago, I came to attend my 25th alumni reunion at IIT Delhi. Of my class of 50, almost 45 went to the US or somewhere abroad. But when I asked about the last graduating class, I was both shocked and pleased to discover that only two had gone abroad. It was nice to see that of the rest many had started their own companies. I used to tell people, a few years ago, that there were only two role models in India — cricketer and film star. Today, there is a third... a software entrepreneur. Not many countries have it.

Kalbag: In terms of thought excellence, India is still not being thought of as a thought leader. Or do you disagree with that?

Michael: When people talk about innovation, we tend to think about disruptive innovation, big breakthroughs. We need to refocus a little bit and focus on the practical aspect of innovation. There are breakthroughs all the time but there is a better success rate when there is incremental innovation. We always looked at metrics like patents filed but that is changing. Let me illustrate. I was very excited on reading about an Indian microfinance company that was using Salesforce.com for customer relationship management solutions. Why is that revolutionary? Because it involves a company that is focused on microfinance, which instead of investing in large systems saves resources that can be diverted to better causes.

Mittal: One change which has happened in India is that failure is no longer a bad word. People are willing to experiment. I have had people come in for jobs saying, "I have tried my hand and it did not work. Let me get more work experience and then get back to being an entrepreneur." I think we also need a completely new ecosystem of finance. So you have people from the information technology industry after creating wealth, creating this new system. If you look at (N.R.) Narayana Murthy and his new venture (Catamaran), he is more likely to be patient with an entrepreneur as compared to a venture capitalist who would be mapping exit routes. Similarly, NASSCOM has started an innovation fund which will look at early-stage investment. We will ask the same professional questions, but we are likely to be a lot more patient. ◆

For the podcast, visit businesstoday.in/nasscom

MONEY

Taking the Fund Route

Mutual fund houses are wooing parents with niche offerings that promise to help build a corpus for their children. BY DIPAK MONDAL

Want to create a corpus for your children's education and marriage? Insurance plans are not the only option. Several mutual fund, or MF, houses now offer child plans tailored for this purpose. Currently, seven such plans are available; these are mostly hybrid asset-allocation funds with a portfolio of debt-equity mix. The most recent one was launched by Fidelity Mutual Fund on January 6. More such plans are waiting in the wings. For instance, an application from Peerless Mutual Fund for a similar offering is pending with the Securities and Exchange Board of India, or SEBI.

What is Different?

Unlike the hybrid asset-allocation funds, however, some of these plans come with an option of a lock-in period, which could be either three years or till the child attains the age of 18, whichever is later.

A majority of these plans come with multiple options based on the asset allocation. In a typical aggressive plan, the portfolio will have up to 70 per cent exposure to equities and the balance to debt.

On the other hand, a conservative plan will invest up to 70 to 75 per cent of the money in debt. "The investments are made in traditional asset classes of debt, equity and gold. However, the investment pattern and duration differs from that of normal mutual fund schemes. Also, the duration of the underlying instruments is chosen to reflect the long-term

nature of the fund," says Akshay Gupta, Chief Executive Officer, Peerless Mutual Fund.

Insurance versus MFs

Many financial planners question the relevance of child plans in mutual funds since they do not contain any provision to secure the child's future in case of the death of the parent/s. However, some argue that a term insurance plan can be used to provide adequate cover.

"Unpredictability should be covered by insurance and predictable investment decisions through MFs. Time and again, it has been proved that both instruments serve varied purposes and one must not mix the two," says Gupta.

Jaideep Bhattacharya, Chief Marketing Officer, UTI Mutual Fund, says goal-based schemes such as child plans help investors allocate a part of their savings for a specific purpose, which is the essence of these funds.

When it comes to saving for children's future, financial planners have always preferred a combination of mutual funds and term insurance plans. According to them, child plans based on unit-linked insurance products, or ULIPs, are expensive due to their high initial charges. Sumeet Vaid, Managing Director, Freedom Financial Planners, says even a combination of an equity-oriented child plan of mutual funds and a term insurance plan can serve the purpose of saving for your kids.

Ashu Suyash, Managing Director and country head, Fidelity India, says the need for protection gradually decreases with time, but the need for wealth increases. "When you become parents in your 30s, you may have to pay almost 2 per cent as mortality charges for some ULIPs, apart from several other charges. When you put away money for 10 years in ULIPs, you pay a lot unnecessarily. Wealth creation will not happen," she says.

However, according to Veer Sardesai, a financial planner, investments in pure equity funds can achieve the kind of corpus one may need in the future for child's education and other goals. "An ideal combination would be an index fund and a term plan," he adds.

Report Card

Performance of mutual fund child plans

	RETURNS (%)		
	1-yr	3-yr	5-yr
Templeton India CAP Gift Plan	9.56	2.67	13.63
HDFC Children's Gift Inv	24.43	9.18	12.97
ICICI Prudential ChildCare-Gift	13.49	-4.8	12.2
Debt-oriented Tata Young Citizens	6.35	4.15	10.87
LIC MF Children Fund	-2.47	-22.7	--
Magnum Children's Benefit Plan	8.45	6.11	7.85
HDFC Children's Gift (Sav)	10.3	8.63	8.52
ICICI Prudential Child Care-Study	11.08	8.22	10.84

Assets are in ₹'000 crore, folio numbers in '000

Source: AMFI

UMESH GOSWAMI

ASHU SUYASH, Managing Director, Fidelity India

"When you put away money for 10 years in ULIPs, you pay a lot unnecessarily on mortality charges."

Should you Invest?

Child plans of mutual funds are ideal for those who do not have much time or expertise to actively build a portfolio. The performance of the existing funds over the past five years clearly shows that equity-oriented funds (with over 65 per cent exposure to equity) have given returns of more than 12 per cent on an average. In contrast, debt-based schemes have given 9 to 10 per cent returns in the last five years.

With soaring education costs and high inflation, one could consider going in for equity-oriented funds as equity is the only asset class that beats inflation in the long run. "Risk and reward go hand-in-hand. If you don't take the extra risk, you will not achieve much. Extend the same thing to the plan for your child. Risk averse investment will not be able to beat inflation," says Suyash. ◆

Courtesy: *Money Today*

REMOTE BARGAIN

A multitude of brands in their basket, homeshopping channels are a big hit and may well be the new face of alternative retail. BY ANUMEHA CHATURVEDI

When Network18's 24-hour shopping channel HomeShop18 hit TV screens in April 2008, CEO Sundeep Malhotra was worried: "We were not sure about the kind of products to be sold ... if we would get even one customer." A few months later, it did not help his confidence when an iconic investment bank went belly up in New York, sparking a financial crisis across the globe. Companies started sacking and consumer spending all but froze.

HomeShop18 survived, and with aplomb. Three years, 3 million customers across 3,000 cities and 100 per cent year-on-year growth later, it is booming today.

STAR CJ Network — a joint venture between STAR Asia and South Korea's CJ O Shopping — launched STAR CJ Alive in July last year. It does about 2,000 transactions a day, selling apparel, jewellery, and consumer durables like laptops and phones. Earlier available on Tata Sky, STAR CJ tied up with Dish TV last month, an access to another 10 million households.

There are others waiting in the wings. Industry insiders say Zee Entertainment, Bennett, Coleman and Company Ltd and Future Group are gearing up to launch their own shopping channels. While others wouldn't talk, Future Group CEO Kishore Biyani only said "work (is) in progress".

Teleshopping is not new to India; it has been around since 1995. Only, it took time to hit the highway. Initially, shopping on TV was associated with non-branded products of questionable quality. Agrees STAR CJ Network CEO Paritosh Joshi: "We do not sell sauna belts... The shady business of selling spurious products on various time slots on channels is the bane of our business and would be worth ₹2,000 crore." Joshi is referring to the slots on which everything, from sauna belts to *rudraksh malas*, are sold. "These slots are part of the unorganised category as they do not sell recognised brands," Joshi says. He clubs HomeShop18 and STAR CJ in the organised category and pegs the combined market size at ₹500 crore. Amin Lakhani, Principal Partner at Mindshare Fulcrum, a media investment and management group, says though the slots are restricted to odd

hours, they are good sources of revenue. "Brands advertising here are for the quick buck."

Given the situation, the launch of HomeShop18 was shrouded with scepticism and getting reputed brands to come on board was a challenge. Malhotra approached a lot of them. Chef-turned-entrepreneur Sanjeev Kapoor's kitchen appliances brand Wonderchef was one. "When he approached us, people were not taking the concept seriously," says Kapoor. But he took a chance and the products were lapped up by the audience. Three years on, Wonderchef still sells on HomeShop18. So do a host of others. From Tanishq and Samsung to LG and Whirlpool, HomeShop18 sells more than 450 brands. It claims to be the largest retailer for mobile phones in the organised market. Also for Reebok and Graviera. Add to this average daily sales of about ₹1.5 crore and a customer every six seconds. Malhotra is a vindicated man today: "We have created an industry."

HomeShop18 is now showcasing insurance products and has tied up with Bajaj Allianz, Tata AIG and ICICI Lombard. There are plans for real estate and automobile forays too. "These are opportunities to be looked at but we have no immediate plans," says Malhotra. "There can be only two triggers to buy on TV — exclusivity or value proposition."

The triggers have worked right.

Loud and clear: Star CJ Network CEO Paritosh Joshi

NUMBER GAME

No. of TV households	125 MILLION
Organised teleshopping market size	₹500 CRORE
No. of online shoppers	20 MILLION
Size of online market	₹1,350 CRORE

RACHIT GOSWAMI/www.indiatodayimages.com

SHEKHAR GHOSH

Lights, camera...: HomeShop18 CEO Sundeep Malhotra

HOMESHOP18

LAUNCHED: **APRIL 2008**

AVERAGE TRANSACTIONS PER DAY: **8,000 to 9,000**

AVERAGE SALES PER DAY: **₹1.5 crore**

MAJOR BRANDS SOLD: **LG, Tanishq, Reebok, Whirlpool**

CUSTOMER BASE: **3 million**

Retired bank officer Ashok Potdar has bought jewellery, dinner sets, and Lee and Reebok apparel from the channel. The 61-year-old from Bihar's Purnia town was also looking for washing machines and ACs, "but they could not deliver here".

Logistics is still a challenge in a country with 125 million TV households. So, HomeShop18, which aims to double customer base and transactions this year, is busy expanding its network of warehouses, call centres and consumer interfaces. With a recent tie-up with Sun TV Direct, it hopes to widen its South India reach.

Brands are happy, too. Says Naveen Paul, Marketing Vice-President for Spice Mobiles: "TV works for us in areas with poor reach. We sell about 35,000 handsets a month on HomeShop18." Samsung sells its microwaves and cameras on both channels, and hopes to double sales this year. "Fifty per cent of our microwave sales in the distributor category come from the channels, encouraging us to add more products," says Ravinder Zutshi, Deputy Managing Director, Samsung India.

Demonstrations and interactivity help. Wonderchef conceptualised products like the Super Tandoor and Gas Oven Tandoor for the channels. "These products are tough to explain in a retail outlet. Selling on TV is easier, thanks to demonstrations," says CEO Ravi Saxena.

So what's the win-win proposition for all? The channels work like distributors, procuring directly from the brands. Doing away with the wholesaler-retailer chain creates room for discounts. Margins are in single digits for consumer durables, but over 30 per cent for skin care and apparel.

NEW VISTAS

HOMESHOP18

Showcasing insurance products

Plans to enter the automobile and real estate markets

Tied up with Sun TV Direct to widen reach in South India

STAR CJ NETWORK

Tie-ups with Tata Sky, Dish TV

Plans to get into financial services this year

Indians are shopping like never before and online shopping is fast catching up. Amrinder Dhaliwal, Business Head at Auto and e-commerce, Times Internet, pegs the online market size at ₹1,350 crore and 20 million heads. Channels are targeting this consumer base. Lack of Internet penetration, TV's interactivity, and the comfort of armchair shopping is what gives them the edge. This is the reason that despite having Net avatars, a readymade base for e-tailing, media giants are eyeing this category.

But there is a long way to go. HomeShop18 may be doing well, but of India's billion-plus population, it has managed to tap only 3 million. "We are trying to build an industry and will have to invest for three to four years," Malhotra says. STAR CJ will take another three to four years to break even, and the entry of seasoned retail players such as Future Group could spell trouble. Says Dhaliwal: "The space will grow multifold. Others will follow, and a 100 per cent year-on-year growth won't be a surprise."

In this space, driven by impulse buying and repeat purchases, the customer is indeed the king. ◆

21st Century Revolution

Can social networks really bring down a government?

On the first day of mass protests in Egypt, the government of Hosni Mubarak shut down all Internet Service Providers, or ISPs, an unprecedented step in a country with a fairly evolved Internet ecosystem. The rationale behind the decision, one understands, was to prevent the use of Twitter, Facebook and other social networks. One reason obviously was to prevent the use of these sites to organise rallies. The second, and this is possibly more insidious, was to prevent the use of such platforms to get news out of Egypt.

Earlier in 2010, the failed "Green Revolution" in Iran highlighted the power of Twitter as it was used to get pictures and videos out to the world. With an easy system of retweets; many people were able to see the brutal means employed by the government to crush protestors. In a display of America's immense soft power, thanks to Silicon Valley, the US government actually requested Twitter to put on hold a scheduled outage, so that protestors in Iran could continue using the service.

One can argue that Iran, Tunisia and Egypt all had autocratic governments, and that in India such a technology-driven mass revolution will never happen, thanks to virtues of democracy. This is not a debate that we want to engage in, but the fact is that when faced with protestors in Kashmir last summer, the government did order a shutdown of data services and text messaging. Again, before the Ayodhya verdict by the Allahabad High Court, mass messaging was banned for fear that rabble rousers will use it.

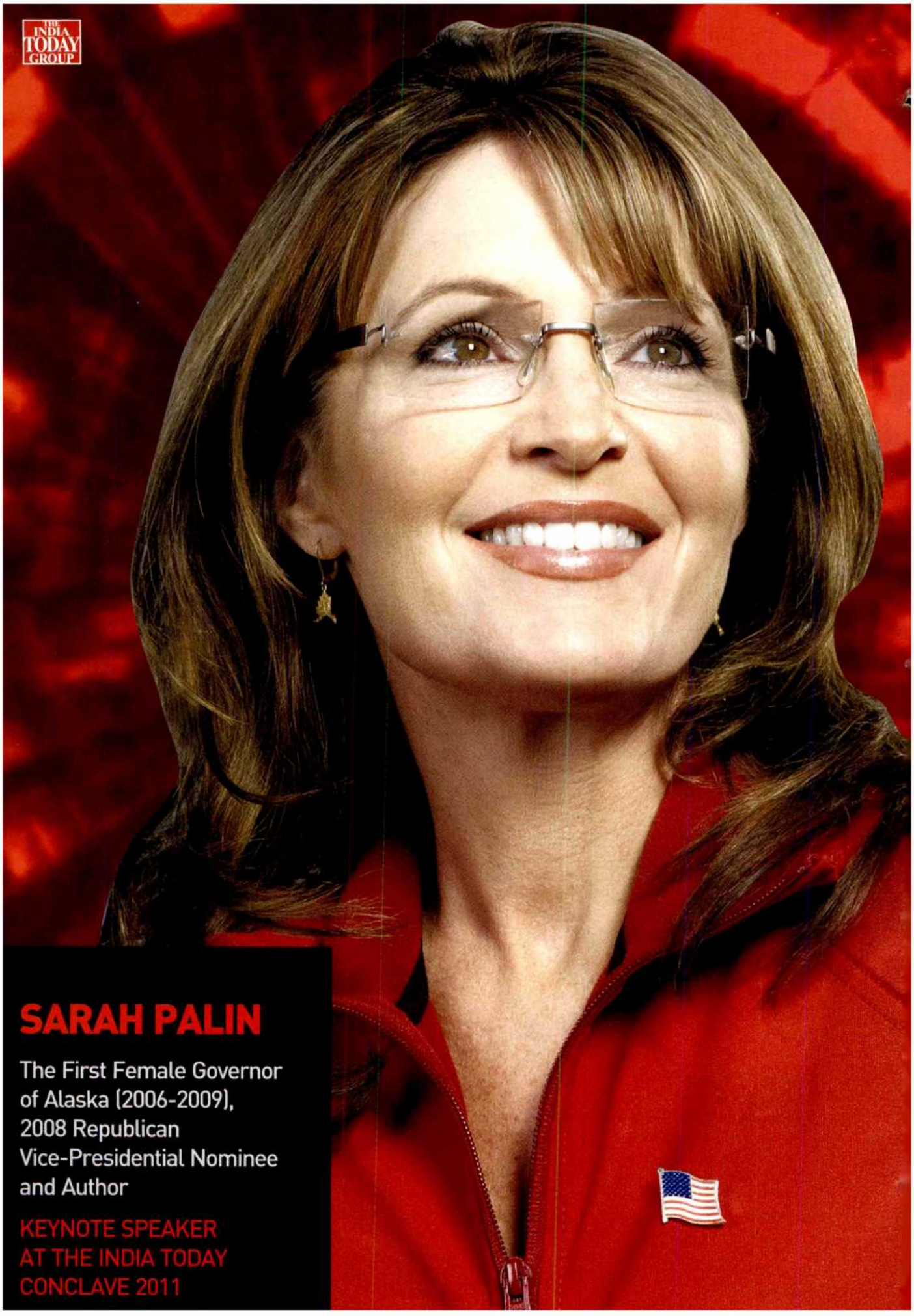
As for Twitter and Facebook, while India has a huge number of users compared with many others, we also have a massive population. So, getting a few millions worked up on the social networks is far from being revolution worthy. That said, on January 30, a march organised in Delhi against corruption drew participants mainly from social networks.

Before the Egyptian government cut off access to the Internet, social networks did play a role in mobilising protestors

And, as we pointed out in our previous issue (*Millions on the Wall*), there has been a tremendous growth of social networks, particularly Facebook and Twitter, in India. Driven by the middle-class, India's rising English literacy and Internet connectivity, these numbers are going to grow further. And should the government be scared of this mass of opinionated young people and restrict access to such services? There are voices among some security experts that advocate the Chinese-style 'Great Firewall'.

This column has argued before that this is a patently stupid idea. But, yes, social networks can and will be used to organise people for various causes. However, revolutions took place before Twitter, Facebook or even TV for that matter. The technology of each era played a role in every revolution. Technology, no matter how useful, can hardly "cause" a political revolution. So calling the mass protests in North Africa "Twitter Revolutions" is more likely to come from start-ups and private-equity folks. There is only one cause for a revolution — poor governance.

We live in an age where information spreads faster and more easily, and thus examples of poor governance come to light a lot more easily than before and that is not a bad thing. Governments and their agencies, including in India, are responsible to all their citizens, even those online. They should also engage with those online — the Delhi Traffic Police is a good example — and act against the causes of citizen angst rather than those who bring it up. ◆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Building Leadership Depth

Reading about "How tos" won't help you build a talent bank, but it is a start, says Saumya Bhattacharya

The Talent Masters: Why Smart Leaders Put People Before Numbers

By Bill Conaty and Ram Charan
Publisher: Random House Business Books
Pages: 320
Price: ₹699

The authors come straight to the point with the opening line: "If businesses managed their money as carelessly as they manage their people, most would be bankrupt."

What follows is a narrative that takes you through the basics of smart leadership. If there is one model of talent management that is widely emulated or at least idolised, it is the General Electric or GE model. Management guru Ram Charan and Bill Conaty, a former Senior Vice President of GE, begin the lessons with GE's model of nurturing leaders.

When Larry Johnston, Chief Executive of GE's $6-billion appliance business in Louisville, Kentucky, decided to leave suddenly in 2000 — he had an offer from the Albertsons grocery store chain — it was an unexpected departure. Did GE falter? No. Within half a day, GE named Johnston's successor and three others down the line. This was not a one-off incident. When Vice Chairman Dave Calhoun announced his departure to work for a private equity consortium, GE had a ready replacement.

While the book begins by talking about GE and the first part is devoted to its legendary leadership and talent management, the authors have other arresting stories.

Three years before Nitin Paranjpe was named CEO of Hindustan Unilever Ltd or HUL, he had been taken off the leadership list at the company. Having been brought to India after a global stint and put in charge of the laundry business, Paranjpe failed to meet the sales target in his first year. But he slogged away and got the growth back in two years — and re-entered the leadership list.

Conaty and Charan write: "Although he still had the how of leadership behaviour and potential, he did not have the what of leadership performance."

The leadership models of HUL and Procter & Gamble or P&G have been chronicled, acknowledged and observed, but this book's immensely valuable advice is about leadership beyond general management.

The book has good advice for any company that has domain experts and wishes to create a new breed of general managers. Agilent Technologies and Novartis have domain experts working in silos, but they got their leadership priorities right.

CFO Adrian Dillon, who was a change agent at Agilent for eight and a half years before joining Skype, talks of his journey as a talent master. Dillon narrates how his mentor at Eaton Corp., his former employer, gave him a precious lesson in management. After a meeting that Dillon thought went well, his boss and mentor pulled him aside and told him: "That was a great meeting, but your problem is that you still think your job is to be the smartest guy in the room. It's not." Dillon was told that his job was to "make everybody in the room think that they're the smartest guy in the room".

Beyond anecdotes and gripping examples of leadership, Conaty and Charan have devised a tool kit to handhold companies and individuals. Though leadership cannot be built by reading about the "How tos" of mastering talent, it can be a start. ◆

The book has good advice for any company that has domain experts and wishes to create a new breed of general managers.

BOOKMARKS

The Price of Everything
By Eduardo Porter
William Heinemann: London
Pages: 296
Price: ₹499

Why not put a price on kidneys and allow donors to sell them? What is the price of free? A fascinating book with plenty of real-life examples and insights into human behaviour.

A Hedge Fund Tale of Reach and Grasp
By Barton Biggs
John Wiley & Sons, Inc.
Pages: 317
Price: ₹1,137

The author proclaims that this is a business and investing book masquerading as a fable. Although, unlike a fable, it has quite a few charts and numbers, it is a story well told.

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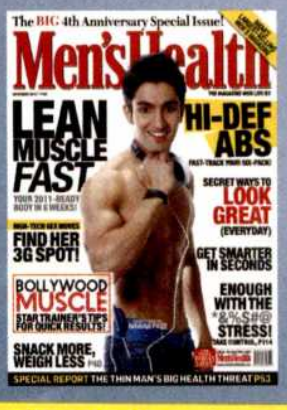

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How to Handle Sudden Criticism

Do not respond to disapproval at work emotionally

Appraisals are emotional times. You have been working to the best of your ability all through the year. It is finally time for some reward. The office is abuzz with discussions around performance and there is an air of expectancy. However, when discussions around appraisals begin, a number of people are in for unpleasant surprises in terms of feedback. This results in both anger and attrition.

Nishant (name changed), who works in the information technology or IT services industry, was a high-performing employee, or at least that is what his boss would often tell him. He was driven and motivated. But come appraisal time a couple of months ago, the young manager, who was expecting a promotion, was told by his supervisor that he was not among the top performers and needs to improve his performance.

Says Nishant: "I was completely taken aback at what I was told. I had been meeting my targets so consistently." He tried to argue with his boss, who was convinced about his own views about the young manager's work. The performance discussion turned into an argument, with Nishant trying to press his point that he has not been given any negative feedback on his performance, whereas his boss maintaining that he has reasons to believe Nishant could do with some improvement.

Nishant was, of course, caught napping, but if you are faced with a similar situation, you can have a game plan. At team meetings or during appraisals, if your boss decides to criticise you, hear him out. Remain quiet and allow it to sink in. Once the senior has made his point, ask him politely: On what basis has the remark been made? If it is fair criticism, the boss will respond with data. Have a discussion around this data only if you are prepared. Otherwise, buy time to think about what you have been told. You could say that you would like to have a further discussion on the issue a little later.

If the criticism is valid, accept it graciously. "If it is legitimate, the criticism from your boss has to be accepted calmly," says Hastha Krishnan, Director and President of Ma Foi Management Consultants. Krishnan recalls two instances in her 17-year stint at the organisation when she reacted to unexpected feedback. "Whenever I reacted, my boss helped me look at the data in an unemotional way and in both the instances, I understood his point."

SANTOSH

When in the Line of Fire

- Allow your senior to make his point
- Ask for the reasons for negative feedback
- Ask for time to think about the issues
- If the criticism is valid, accept it graciously

It is good to ask for more time because a lot of people get emotional when the work or projects that they are nurturing is criticised or not given recognition. "That is not the time to deal with the issue," says Krishnan.

Nishant has since quit the organisation. But that is not the only option if you disagree with the criticism. "It will be a good idea to tell your boss that you would work on the issues he has raised and ask for support," says Krishnan. ◆

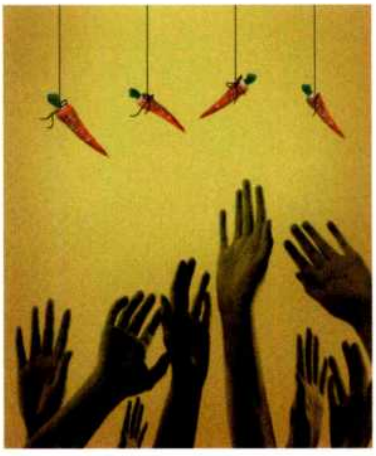
University to Plug Skill Gap

TeamLease and Gujarat are putting in place India's first vocational education university

Education pundits often tell you that employability is a bigger problem than unemployment. They also believe that India might fritter away its demographic dividend in the next few years if employability-related issues are not dealt with. Sensing an opportunity, TeamLease Services, India's largest staffing firm, has recently announced the country's first vocational education university in Gujarat. The university will set up 22 community colleges across the state and offer two-year associate degree programmes in collaboration with employers. Though there are several skill training institutes in the country, this is the first university for vocational education.

Says Manish Sabharwal, Co-founder and Chairman: "At TeamLease, we have hired one person every five minutes for the past five years. But we have also only hired 5 per cent of the people who came to us for a job. That is the state of employability we are addressing."

Sample the market size TeamLease and other players are targeting. India's demographic dividend means that more than one million people will join the country's labour force every month for the next 20 years. However, the skill crisis means that more than 58 per cent of the youth suffer from some degree of skill deprivation. "Converting growth to poverty reduction requires a massive



RAVISHANKAR

overhaul of our education and employability ecosystem," says Sabharwal.

Bharat Gulia, Senior Manager of Education Practice at Ernst & Young, feels that the idea will work at multiple levels. It will help improve gross enrolment ratio and make students job-ready while they earn a degree. "Above all, this will be a great way to link vocational with higher education. A healthy education ecosystem needs all kinds of universities," says Gulia. You can expect to hear about more such ventures, he adds.

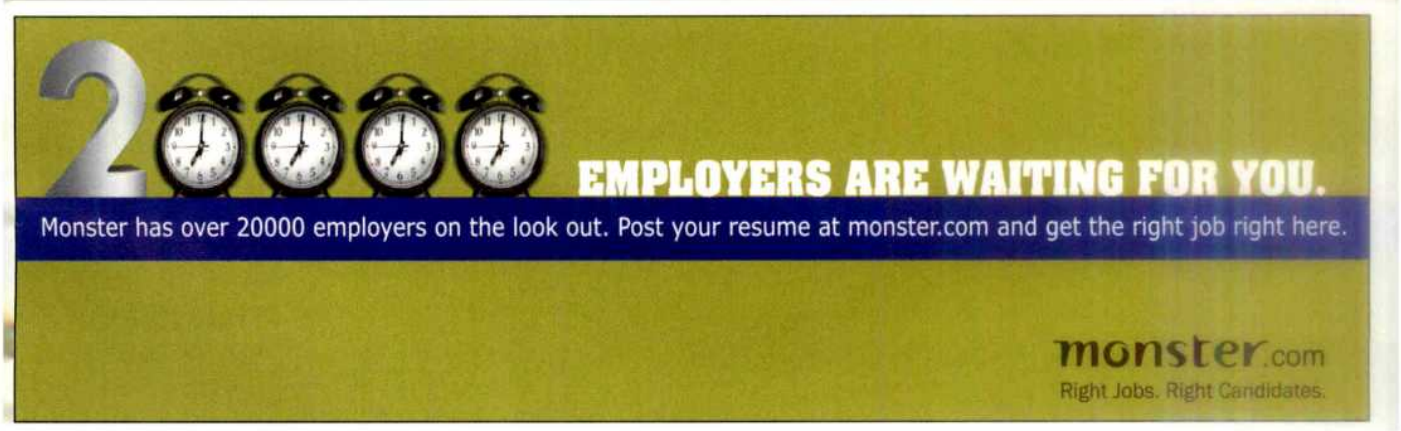
The total investment outlay for the university is ₹30 crore in the first phase, which is spread over three years. "Then we want to take it national," adds Sabharwal.

Last March, TeamLease had acquired a controlling stake in the Indian Institute of Job Training or IIJT, a vocational training services provider with a national network of more than 200 centres. At IIJT, students are imparted three to six months of training. But many students need training over a longer period. That is where the university comes in. "We are creating a corridor of opportunity. At the 22 community colleges, we will have a two-year associate degree that can lead to jobs as well as to a college degree," he says. This will apply only to Gujarat for the time being.

Each college will have five to 15 satellite-enabled classrooms. The degree will be divided into four semesters with the last semester including an internship with an employer. The annual fee will range from ₹30,000 to ₹60,000. The first two courses to be rolled out include accounting and IT infrastructure management.

Also, each college will have an intake of 300 to 600 students initially. "If you have campuses spread across acres, you increase the cost of training. At the vocational university, we are aiming to set up smaller campuses, but in greater numbers. Hence, the distributed model of community colleges," explains Sabharwal. Employers will be at the heart of academics, while technology will be at the heart of operations, he adds. ◆

SAUMYA BHATTACHARYA



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Senior Technical Writer
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Location: Bangalore, Hyderabad
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Description: Tasks:Enquiry Generation & Assessment, Offer / Tender Preparation, Negotiation & Order Booking, Order Execution, Payment Collection, Building Customer Relationship.

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WNS Global Services
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Description: Accountabilities: Deployment of Lean & Six Sigma methodologies; Identify key opportunity areas for operations and drive quality projects to improve process efficiency & effectiveness.

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Location: Chennai
Job ID: 9205756
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SIEMENS
Accounts Executive
Location: Bangalore
Job ID: 9215955
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Karvy Stock Broking Limited
Assistant Manager-Taxation
Location: Hyderabad
Job ID: 9108615
Description: Incumbent must have experience and good knowledge in Income Tax.

Integreon
Analytics Specialist
Location: Mumbai
Job ID: 9108843
Description: To perform market and financial research and analysis for leading global investment banks, private equity firms, hedge funds and research companies.

Make My Trip (India) Pvt Ltd
Assistant Manager - Accounts
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Job ID: 9271604
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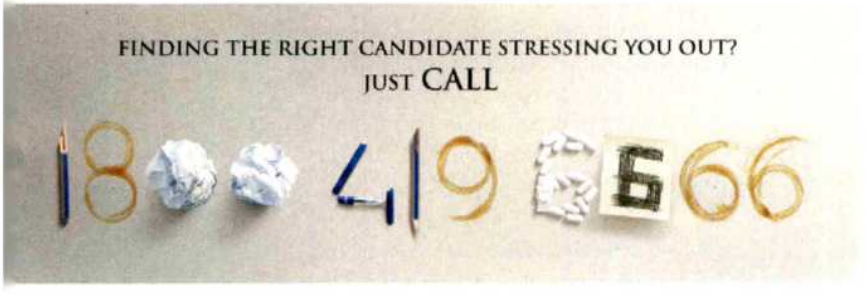

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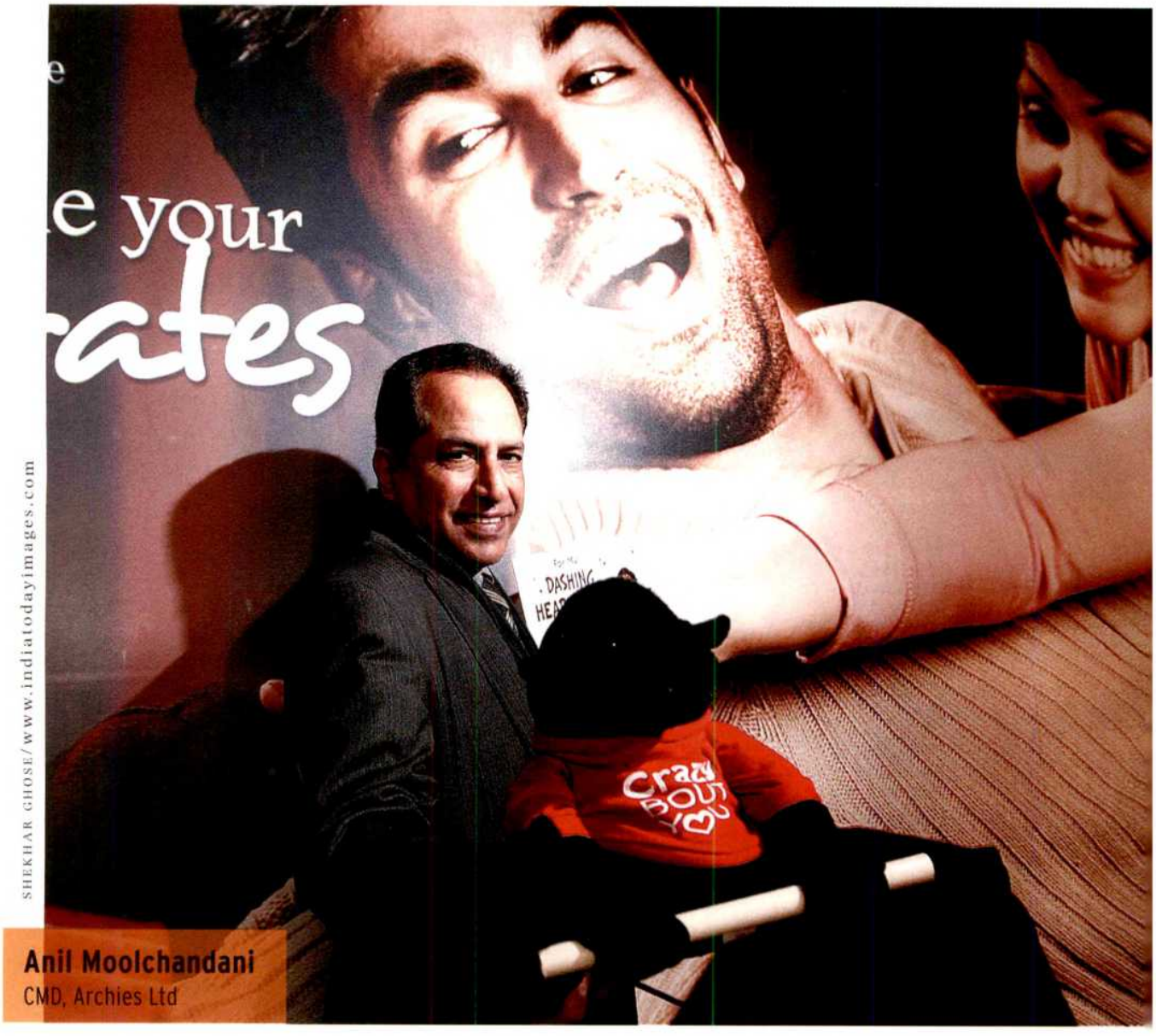

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Anil Moolchandani
CMD, Archies Ltd

Mushy Much

What would he not do to have you receive an Archies card? After striking an exclusive deal with Hallmark Cards to open stores across the country, **ANIL MOOLCHANDANI**, Chairman and Managing Director of Archies Ltd, is pushing his own creations for Rakhi and Holi, among other festivals, through Hallmark stores abroad, especially in Asian-dominated regions. "Few knew about Valentine's Day when we sought to popularise it. We pretty much created Friendship Day in 1995 and have now created Daughters Day, which is the fourth Sunday in September every year," says Moolchandani. But why are his cards so heavy on mush and so low on intelligent humour? "I want to sell humour, but many retailers do not care. They want cards that 'look good' as they sell... I wish it was otherwise as I have such a huge sample of funny cards, but they keep getting rejected," he says. You certainly cannot fault him for not trying. After all, few know that he even launched cards for gay people last year.

SHAMNI PANDE

She's the Boss

So how did Sandeep Goyal make a reportedly neat pile of ₹250 crore by selling his 26 per cent stake to his joint venture partner Dentsu, the Japanese advertising major? Well, some answers might lie with his wife **TANYA GOYAL**, 48, with whom he co-owns the Mogaé Group. Few know about this media-shy high achiever, who has carved an identity for herself. Before moving to her second job as the first-ever female management trainee at Swaraj Mazda, Tanya taught Maths at Thapar University. In 1991, she set up Mogaé Consultants and launched her boutique recruitment business. She counts herself the first among independent, professional headhunters in the country. A decade later, she worked as a consultant with Hewitt Associates. Sandeep, with her guidance, struck a JV with Dentsu and she took over as Executive Director. She was on the board of all the seven Dentsu JV companies. Today, she still retains that title, is Principal Advisor to Dentsu and continues to sit on the board. Her strategy is to "go by my instinct". But her husband clearly swears by her judgment. "She restrained me when I wanted to bid for IPL... that has been good. But she cautioned me against two other ventures, which I did not pay heed to, and both have remained duds thus far," he says.

SHAMNI PANDE

NISHIKANT GAMRE

Dr Sabahat Azim (L), CEO, Glocal
M. Damodaran, Chairman, Glocal

DEBASISH PAUL

MONEY SHARMA

Health Stock

Long before he led the Securities and Exchange Board of India or SEBI, **M. DAMODARAN** was the health secretary of Tripura in the 1980s, a post that got him interested in rural health care. Now, along with **DR SABAHAT AZIM**, a former colleague from Tripura, he is looking to set up a chain of primary and secondary healthcare centres across India. "Most investments are taking place in tertiary health care. But our focus is basic health care and those parts of India that are underserved," says Damodaran whose younger sister is a practising doctor in Kerala. Their start-up, Glocal, has already raised ₹15 crore in funding and the two men now have plans of opening over 2,000 healthcare centres across rural India over the next five years.

K.R. BALASUBRAMANYAM

U.K. Sinha
CMD, UTIAMC

UMESH GOSWAMI

Eye Over the Markets

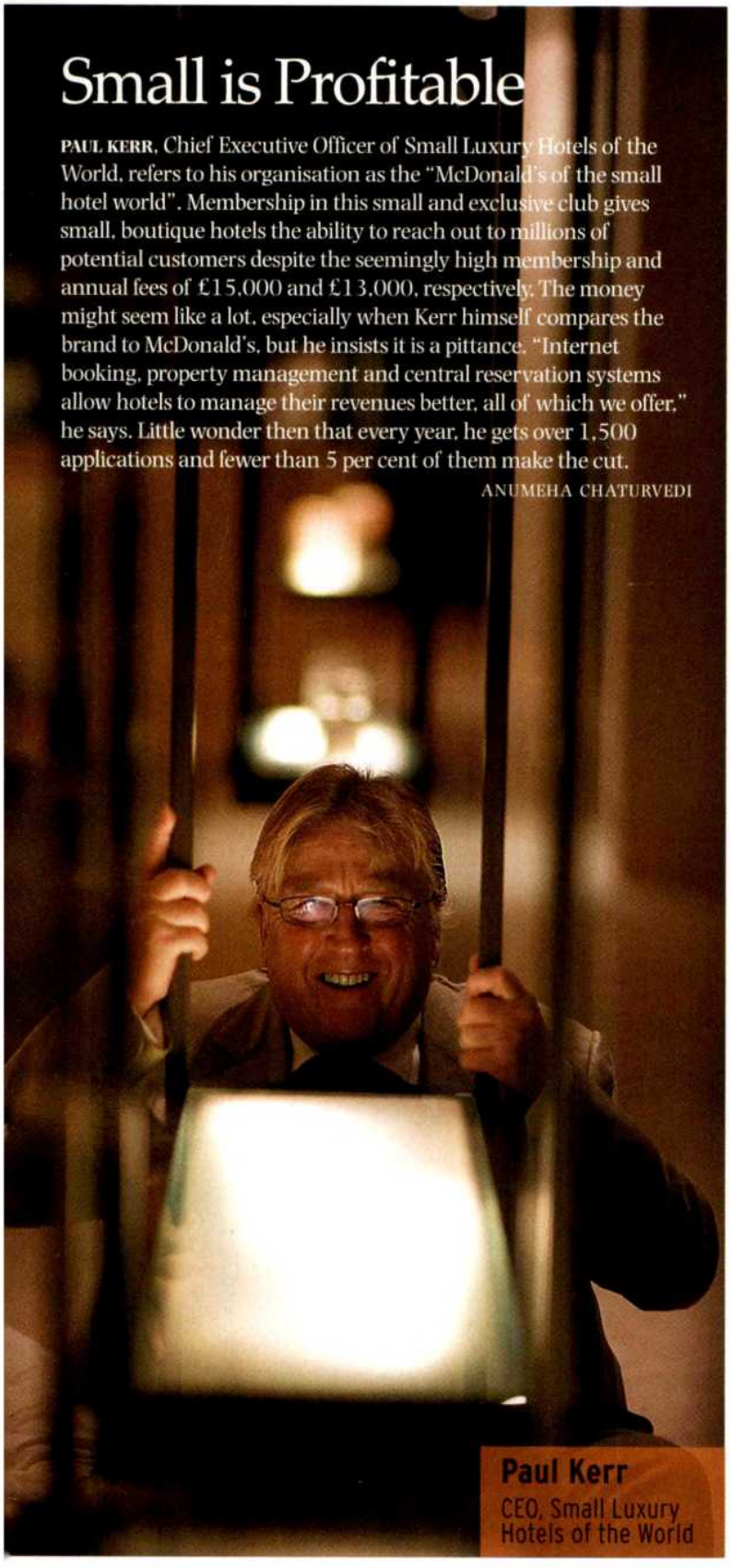
Now a look at the chairman-designate of the Securities and Exchange Board of India or SEBI, current head of the UTI Asset Management Company and retired (voluntarily) Bihar-cadre IAS officer **U.K. SINHA**. The man, who will shortly replace C.B. Bhave at SEBI, managed to transition through three different finance ministers in two different governing coalitions. "Sinha's best weapon is his razor-sharp mind. But an even greater weapon he has is the appearance of being harmless," says a bureaucrat. Sinha's plate will be full from Day One what with the two leading bourses — the BSE and the NSE — slugging it out in public, the controversy surrounding the third exchange MCX and a number of pending regulatory and policy issues. In addition to his much-admired brain, Sinha, as the markets watchdog, might need to exhibit some teeth.

PUJA MEHRA

Small is Profitable

PAUL KERR, Chief Executive Officer of Small Luxury Hotels of the World, refers to his organisation as the "McDonald's of the small hotel world". Membership in this small and exclusive club gives small, boutique hotels the ability to reach out to millions of potential customers despite the seemingly high membership and annual fees of £15,000 and £13,000, respectively. The money might seem like a lot, especially when Kerr himself compares the brand to McDonald's, but he insists it is a pittance. "Internet booking, property management and central reservation systems allow hotels to manage their revenues better, all of which we offer," he says. Little wonder then that every year, he gets over 1,500 applications and fewer than 5 per cent of them make the cut.

ANUMEHA CHATURVEDI



Paul Kerr
CEO, Small Luxury Hotels of the World

VIVAN MEHRA/www.indiatodayimages.com

Amit Sood
Head, Google Art Project

Opening up Art

As a young boy who spent his summer holidays in Mumbai, **AMIT SOOD** did not have much access to art other than the odd museum. "We were not a wealthy family, so seeing art when I was a child was not easy," he reminisces. It was only when he ended up in New York while working that he was able to enjoy paintings by European masters and other modern works. After a while, Sood found himself at Google where he discovered a shared passion for art with a few colleagues and, thus, Google Art Project was born. "Many museums had already gone online, but they did not always use technology very well. And there was little or no collaboration in the online realm between museums," he says. The museums were more than happy to have Google on-board, thanks to its army of engineers and innovative technology. "Now, kids in South Asia, Latin America and Africa can see and experience these works of art," says Sood. You can see Google Art Project at *www.googleartproject.com*. ◆

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My leadership style
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- Participative
- Authoritative
- All of the above

The political leader I admire the most
Mahatma Gandhi

The business leader I admire the most
Steve Jobs

The leadership lesson I remember the best
When you see a person with ability and passion, hire the resource even If there is no immediate position, create one or give them the freedom to choose

A movie I would recommend on leadership
12 Angry Men

The difference between a manager and a leader
A leader is a change agent who performs a transformational role. A manager's role is transactional; to break down the leader's long-term vision into simpler, short-term achievable targets

All good managers are not good leaders
Yes

As told to K.R. Balasubramanyam

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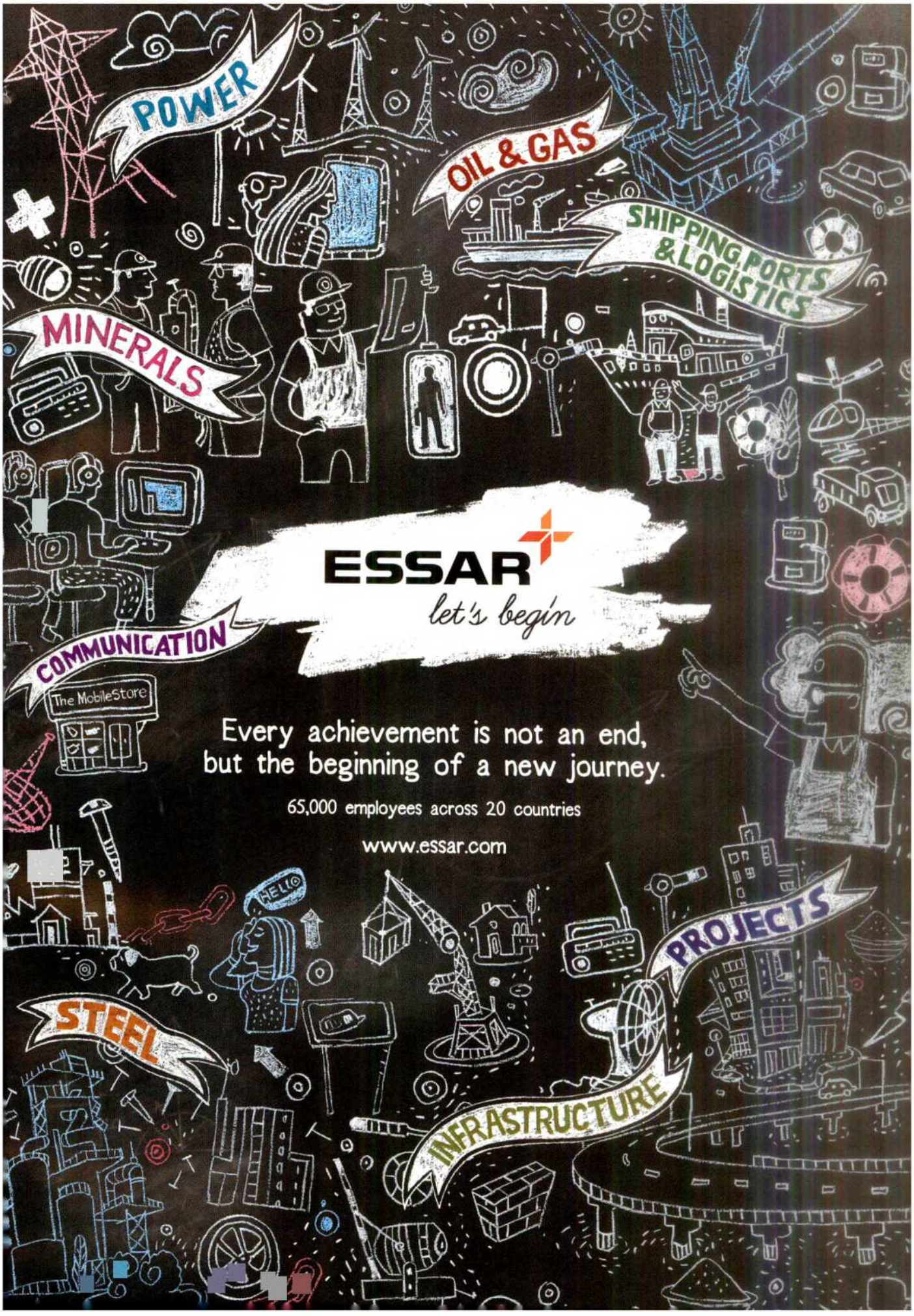
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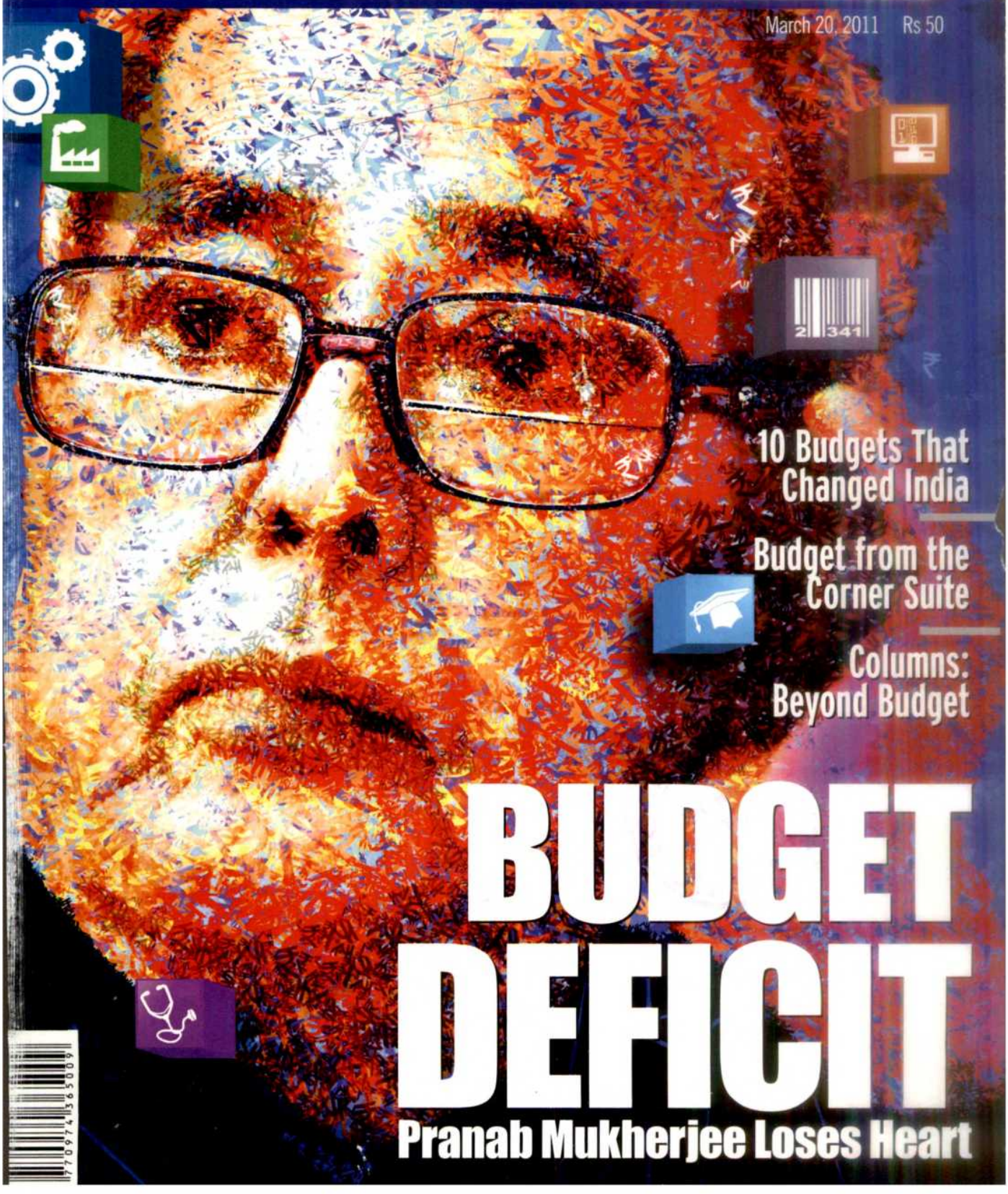

10 Budgets That Changed India

Budget from the Corner Suite

Columns: Beyond Budget

BUDGET DEFICIT

Pranab Mukherjee Loses Heart

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From the Editor

I remember when I was a child eating the only canned peas available then. They were hard, bland and left a metallic taste in my mouth. Even if they were drowned in ketchup or smothered by spices, they remained barely edible. Why would anybody want to aspire to a "phoren" lifestyle when all you got was an ersatz commodity that made you gag?

Today's child can eat her heart's fill of fresh peas and other vegetables. We no longer have to stand in long queues, clutching our ration cards, for dirty sugar or broken wheat. But food-price inflation hangs like a menacing cloud over our heads. Trainloads of fresh produce rot. Subsidised foodgrains do not reach the poor. Every contractor, middleman, or distributor wants his "cut".

India's path to high growth, universal prosperity and honest business is strewn with what the Finance Ministry's Economic Survey called "road bumps". They need the earth mover of bolder and quicker reforms. Sure, Pranab Mukherjee's latest budget speech listed some welcome steps like a million-a-day Aadhar numbers, a roster of delayed financial legislation, and the first stabs at routing cash subsidies directly to the poor. By and large, however, it was a safe budget. It ventured little, and gained little.

Corporate India, of course, rose in a chorus of hosannas; no bad news was good news. Once again *Business Today* interrupts this soothing adagio with a loud clash of cymbals. We do this with an array of reports that will make this issue another collector's item. Associate Editor Puja Mehra subjects Mukherjee's third budget for UPA-II to a litmus test; read her cover story starting on page 46. Mehra also orchestrates a gripping journey into the past: see *10 Budgets That Changed India* starting on page 54. Four apposite columns starting on page 88 spell out what the budget should have achieved. If only Mukherjee had read them before February 28.

Our table is groaning with delectable journalism. Senior Editors N. Madhavan and Suman Layak took vantage seats in corporate corner suites as CEOs and their top teams watched Mukherjee deliver his speech with trepidation and frustration. Senior Editor Anand Adhikari travelled to Patna (page 74) to see how the Union Budget looks and feels from the office of Bihar's Deputy Chief Minister and Finance Minister Sushil Modi. Special Correspondent Taslima Khan brought back an SME-eye-view of the budget from Kanpur, while Principal Correspondent Kakoly Chatterjee went to Haridwar to check out a mega food park — a model that the finance minister thinks will help stem food-price inflation.

Associate Editor Kushan Mitra and Principal Correspondent Sunny Sen collaborated on an investigation of the 2G scandal, and India's booming auto sector (which, spared of fresh excise levies, had much to cheer in the budget). Principal Correspondent Manu Kaushik burrowed into a stock-trading room on budget day. In Bangalore, Associate Editor K.R. Balasubramanyam described how Karnataka is trying to plug public distribution corruption and what gaps remain in national targets in the final year of the Eleventh Five-Year Plan.

Like I said, this is a special issue of *Business Today* you will want to recommend to everybody. Just let me know if you need extra copies!

Chaitanya Kalbag

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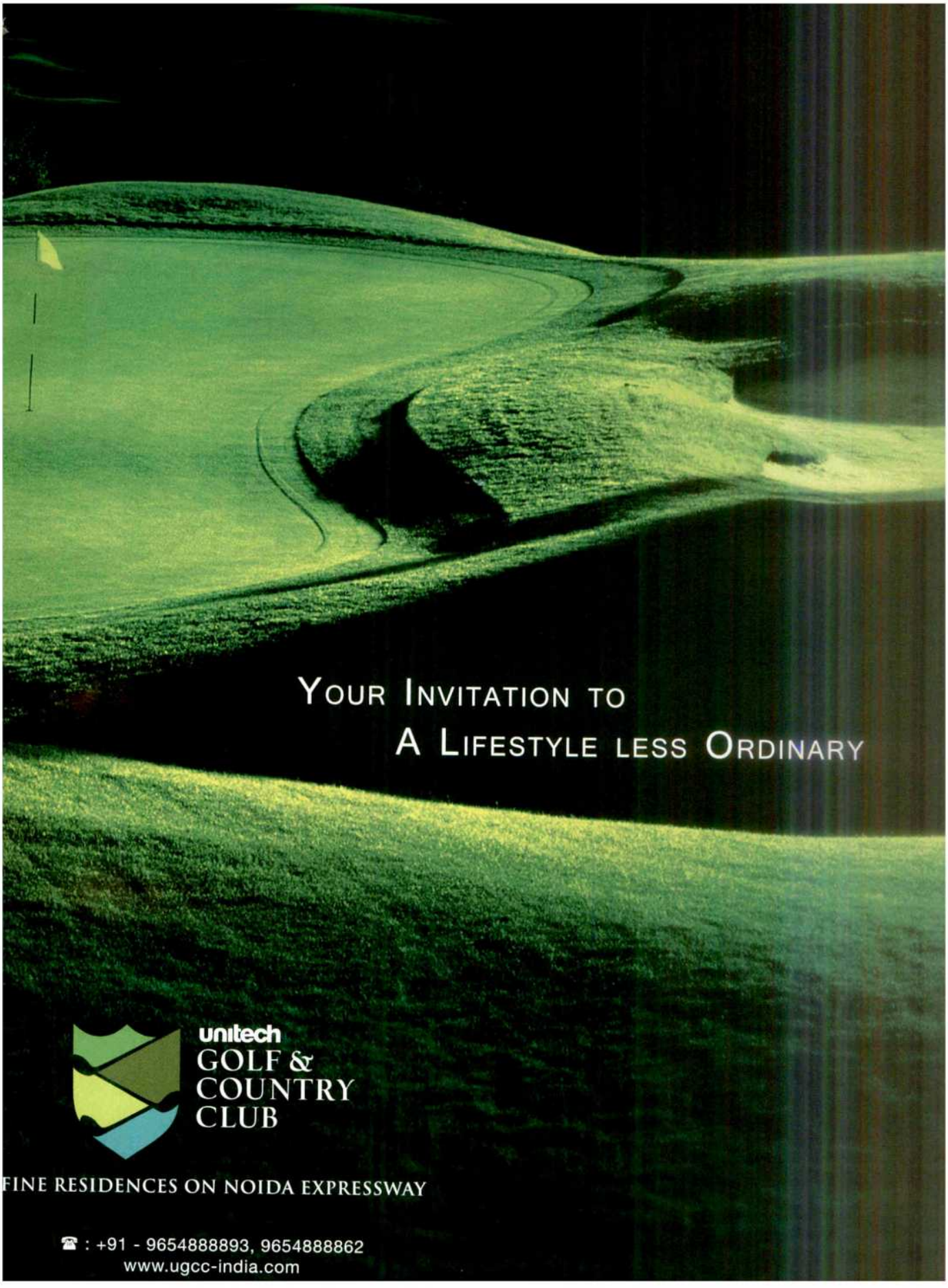
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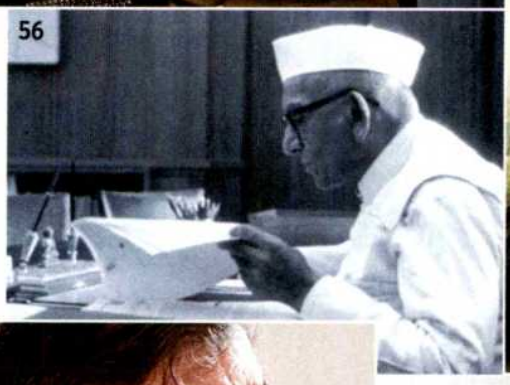

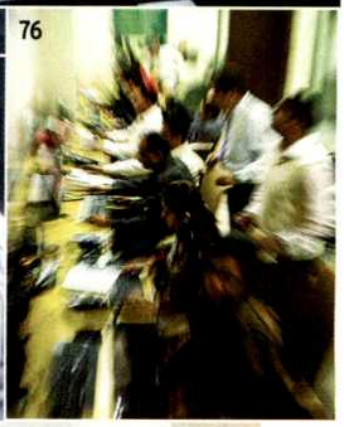

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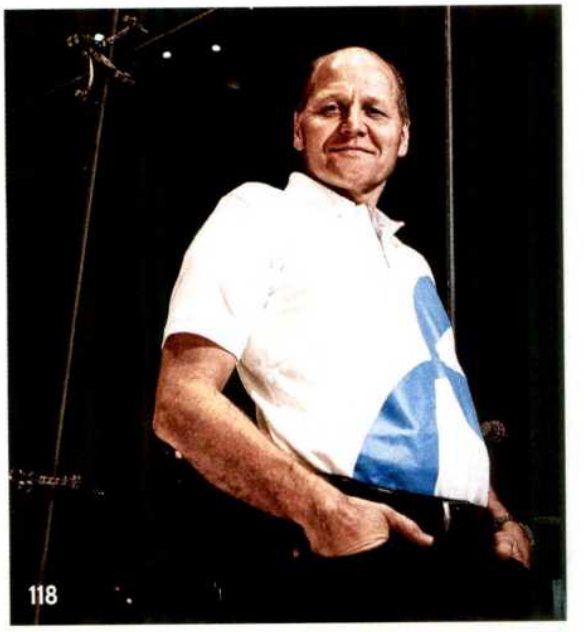

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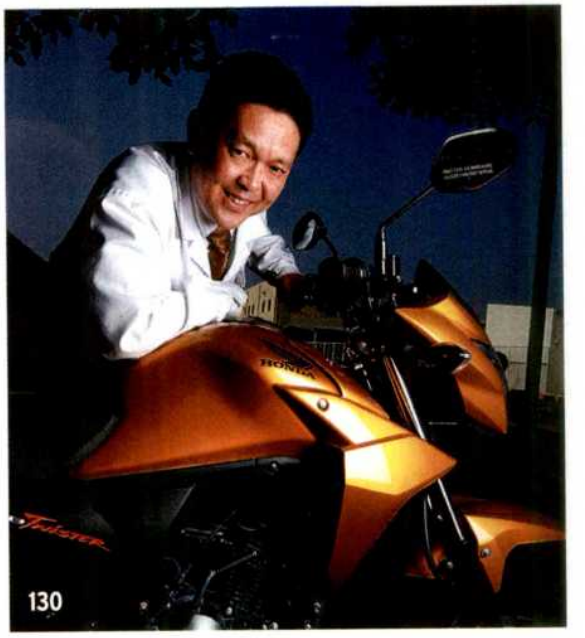

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No Reason to Panic

If the state of markets at the start of 2011 is any indication, the *See-saw Sensex* (BT cover, March 6) may continue in that mode throughout the year. But there is no need to panic. For the long-term investor, these ups and downs do not matter much. The small investor is still hesitant to invest in equity, finding it safer to invest in MFs, banks, insurance, land and gold instead. The government, rather than getting worried, should bring about reforms that will remove the irritants that remain in the flow of foreign funds.

Jacob Sahayam, *Thiruvananthapuram*

Azim Premji's Plan

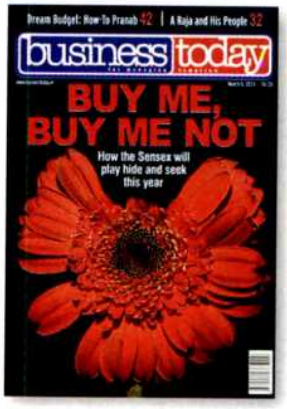
On the face of it, the top-level management changes at Wipro were an attempt by Azim Premji to revive the sagging fortunes of his company (BT, February 6). But at a deeper level, the exercise brought out Premji's lack of trust in his CEOs and implied an attempt by him to ensure a smooth changeover for his son Rishab, the heir apparent, in the near future. Otherwise, why else would he be designated as Chief Strategic Officer? Let us hope the heir apparent will help Premji in the revival of Wipro.

S.R. Gadicherla, *Bangalore*

Real Employment

This refers to *The Other End of the Spectrum* (BT, March 6). Perambalur's District Collector is right about lack of industrial job creation, forcing people to take up menial jobs. While schemes like MGNREGA do provide some relief to the needy, only long-term industrial jobs can usher in sustainable employment. Our MPs and MLAs, therefore, should strive to bring industry to their constituencies, so that real employment can be generated.

Bal Govind, *Noida*



"The small investor is still hesitant to invest in equity, finding it safer to invest in mutual funds, banks, insurance, land and gold instead"

Innovation Task

Necessity is the Mother of Innovation (BT, March 6) vividly covered the outcome of the brainstorming session. The task of innovation must go beyond the realm of IT industry to extend stiff resistance to the worldwide players. The global thrust on innovation and the changing face of competition are yet to be fully seized by the Indian companies barring a few.

B. Rajasekaran, *Bangalore*

www.businesstoday.in@coverstory: *Tied Down Economy (BT,* February 20) on India's big challenge — sustaining the economic growth rate.

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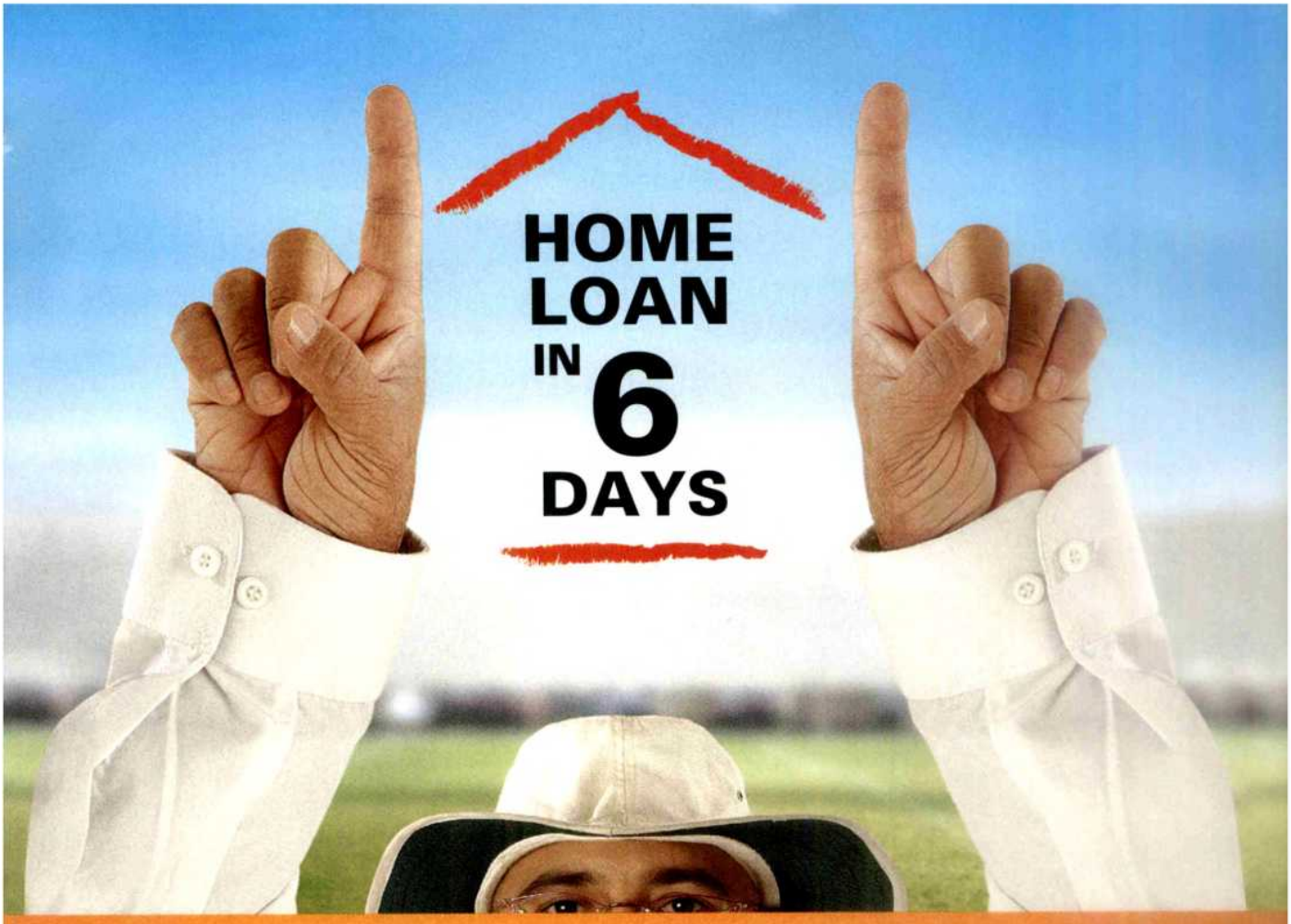

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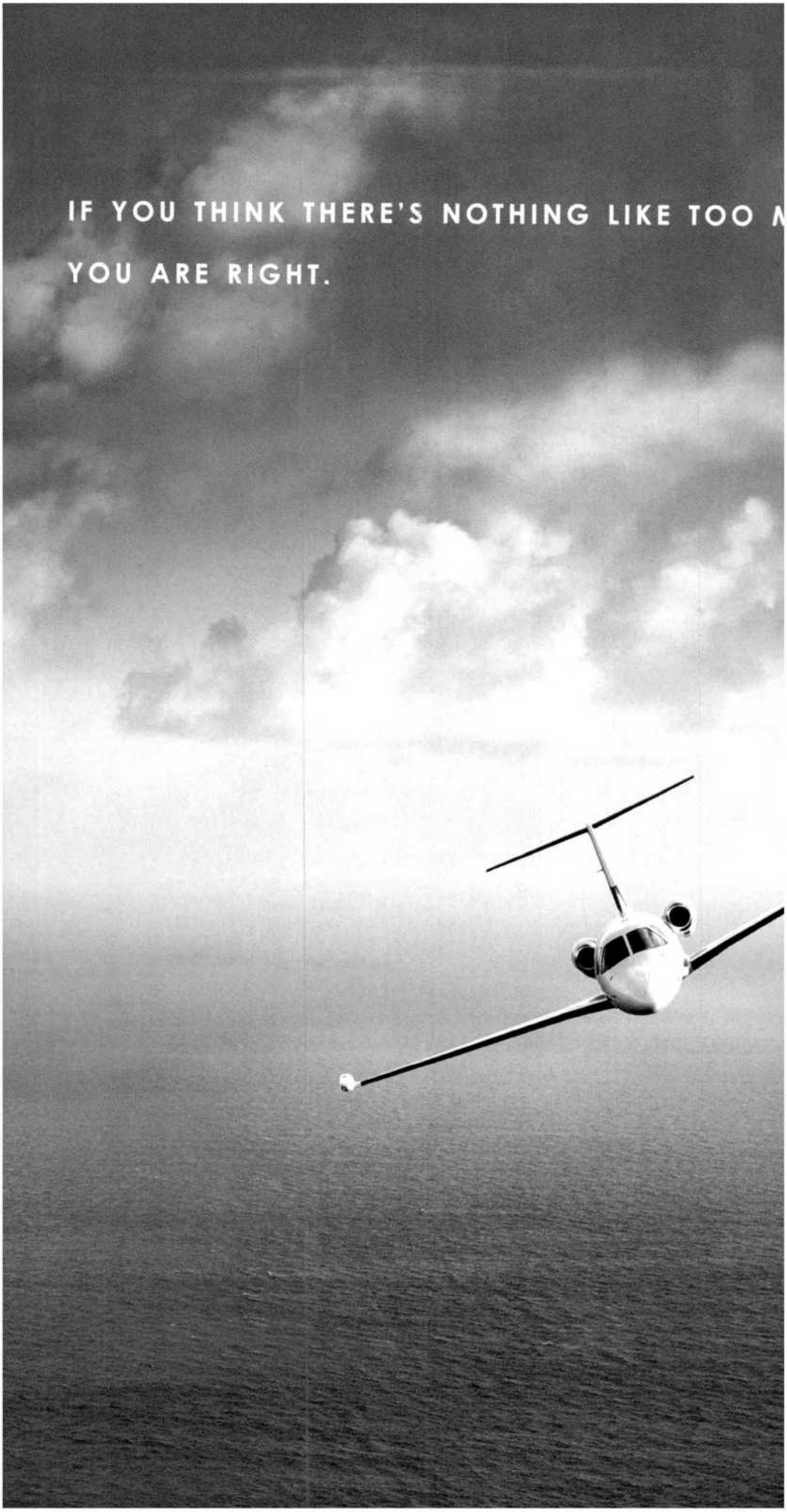
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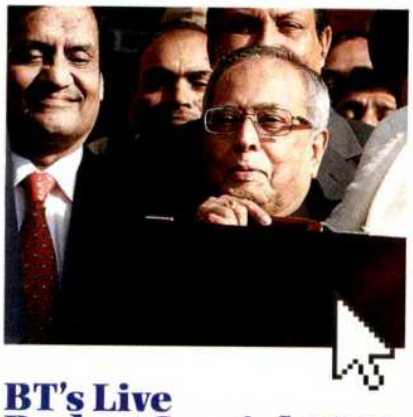

BT's Live Budget Special 2011

Hear from our pros

■ *Business Today* editor Chaitanya Kalbag analyses this year's Budget online.

■ Didn't catch the livechat on Budget day? Visit the site for a transcript of writers taking readers' questions on all aspects of Budget 2011-2012.

Compare Budgets past and present

■ Interactive graphs track market reactions to the announcement.

■ Graphics break down Budget allotments over the years.

■ Definitions of key Budget terms and concepts.

Manmohan the best FM, say readers

BT readers voted Manmohan the best FM in our poll. Singh beat Yashwant Sinha, P. Chidambaram and Pranab.

Hanging By A Thread

Rising input costs have forced many handloom weavers in Andhra Pradesh to abandon their traditional art. Read about their struggle to stay afloat and watch a video interview with one weaver who's quit weaving to become a security guard.

businesstoday.in/thread

Unmade in Tirupur

Forty years ago, the small garment-manufacturing town of Tirupur in Tamil Nadu was a cozy village. Today it's a knitwear export hub, with ₹12,000 crore of hosiery exports expected this year. See photos of entrepreneurs who grapple every day with new opportunities, even as Tirupur faces challenges its residents could never have expected.

businesstoday.in/tirupur

Blogs

Kushan Mitra
The Devas row and the future of wireless broadband.

» businesstoday.in/kushan

E. Kumar Sharma
The M-Satyam and Tech M merger already has an unofficial logo.

» businesstoday.in/kumar

Anand Adhikari
Big pharma faces competition from increasingly popular Babas.

» businesstoday.in/anand

N. Madhavan
Mercedes Benz attempts its first India-specific brand.

» businesstoday.in/madhavan

Anusha Subramanian
Indian TV loves foreign storylines, copyrighted or not.

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FOCUS

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26 Caught and Bowled
30 Mid-air Turbulence

Get Cracking on Reforms

Manmohan Singh must recover the spirit of 1991 and become a reformer again to restore the credibility of his government, argues Gurcharan Das

What is at stake here is nothing less than the credibility of the Manmohan Singh government. Corruption, a steady drift in policy-making, and a paralysis of governance have raised serious questions about this government's ability to run the country. The Prime Minister gives the impression that he is in office but not in power. So, what is to be done?

The answer, I think, lies in some hints that Manmohan Singh gave at what was otherwise a disappointing press conference last week. The government should play from its strength and reassert its authority. It should begin by taking credit for some of the reforms that it has almost achieved. The best example is the far-reaching Goods and Services Tax, or GST. It is by far the most important tax legislation in India's history as a free nation, which will for the first time make India into one common market, cut huge inefficiencies and corruption, improve revenues of the states and Centre, lower the overall burden of indirect taxation, and eventually lower prices.

Although GST was proposed by the previous NDA regime, this government has worked patiently with the states to make it almost into a reality. The government is now ready with a constitutional amendment which

RAJAT BARAN

is the next step. However, the states ruled by the Bharatiya Janata Party oppose it. The Prime Minister has to sit down with Opposition members and cut a deal. We know that he is capable of it. He cut a deal when it came to the nuclear pact and helped to transform our relationship with the United States. Once the deal is made the government must go on the offensive and take credit for it.

What I am suggesting is that Manmohan Singh should try and recover the spirit of 1991 and become a reformer again. No longer does he have to contend with the Left parties. Take the case of food inflation. So far, this government has been applying short-term bandages — it tries to catch hoarders, stops forward trading, forbids export of grains when the country has had a bumper rice harvest, and expects a record wheat crop (while ignoring the grain worth ₹17,000 crore rotting under the tarpaulins of FCI). The key thing is to increase long-term supply. This requires that we recapitalise and reform agriculture both at the production and distribution stage. We have to allow competition against FCI in the warehousing of food, permit foreign investment in modern retail to establish cold chains and reduce crop wastage, and allow farmers to lease their lands to entrepreneurs in order to raise productivity. Although reforms happen at the level of the states, a strong, reform-minded government at the Centre can make a huge difference.

Take a third example. The future of our country will be written in the cities, not in the villages. Our cities are crumbling and this government has realised it. It has created a major reform in the management of our cities with the Jawaharlal Nehru National Urban Renewal Mission, or JNNURM. A few cities have responded and utilised the huge amount of funds allocated under the scheme. States are reluctant to carry out the JNNURM reforms because it will lead to a shift in power from the MLAs to city municipalities. Manmohan Singh's government has to publicly shame those states which have not reformed.

A fourth example is the the Right to Education, or RTE, Act, passed recently. It has many good features but it does not address outcomes and the horrendous "license raj" which persists in education. You need a plethora of licences to start a school or a college and each comes with a bribe. RTE recognises that government schools have failed in India and hence it has mandated private schools to reserve 25 per cent of their seats for the poor. Soon there will be a clamour for these prized seats, and I fear that they will be captured by politicians and bureaucrats and sold to the highest bidder. While states are presently implementing the rules for RTE, the Centre needs to jump in and ensure the autonomy of schools from state interference. This government must also get rid of the "license raj" in education as it did in industry in 1991.

The other reforms this government has initiated are in the bills relating to land acquisition, mining, and other areas. It is not enough to pass legislation, you have to follow through. Our major central ports are in a disgraceful state. The government has tried to bring private participation via a public private partnership model but the department of shipping has sabotaged it. It has created rules that discourage private investment. It should learn from Gujarat, which created investment-friendly rules for its minor ports that today account for one-third of India's total shipping traffic. The same goes for railways. Private participation in freight traffic has failed because railways have sabotaged it by placing unfair conditions on private investors.

The Prime Minister needs to make us believe that he is not only in office but also in power.

The author is a columnist and former CEO of Procter & Gamble India
As told to Manu Kaushik

DAS'S TAKE

- Reform agriculture both at the production and distribution stage to fight inflation
- Allow competition against FCI in the warehousing of food
- Permit foreign investment in modern retail to establish cold chains and reduce crop wastage
- Get rid of the license raj in education
- Negotiate with the states to fully implement the Jawaharlal Nehru National Urban Renewal Mission

WORDSMITH
(NEW WORDS IN BUSINESS)

Elvis Year

El-vus Yee-r

What it means: The peak of popularity of a product or a phenomenon.

Origin: The term was originally used to describe the popularity of the television show *Barney and Friends*, aired in 1992.

Usage: 1999 was the Elvis Year for Indian dotcoms.

A Taxing Resolve

The Central government pushes ahead with India's most ambitious indirect tax reform, the Goods and Services Tax, but it will not be smooth sailing. BY MANU KAUSHIK

What will happen?

The chances of a faster roll-out of the Goods and Services Tax, or GST, have brightened with the government indicating that it will introduce a Constitutional amendment Bill in the Budget session to facilitate the transition to GST. The passage of the Bill in Parliament will see GST replacing excise and service tax at the central level and value-added tax, or VAT, at the state level. The new indirect tax regime, which will treat India as one market, aims to dismantle the fiscal barriers between the states and create a unified tax system covering consumption of all goods and services produced or imported into the country.

The obstacles

So far, the differences between the Centre and the states over issues such as loss of autonomy and compensation for revenue loss have delayed GST's implementation. As many as 10 states have opposed the latest draft Bill, the third in the past eight months: they fear they will lose revenue if they relinquish their right to levy central sales tax on the inter-state movement of goods.

Its advantages...

GST is expected to result in a simplified tax system, uniform pricing of products across the country and lower working capital requirement for companies. Currently, there are multiple taxes on commodities and services at both central and state levels. The complex nature of taxes not only increases the transaction costs for the taxpayer but also acts as a deterrent to widening of the tax net. According to Finance Minister Pranab Mukherjee, GST will double the Indian economy to $2 trillion faster than it will happen without it.

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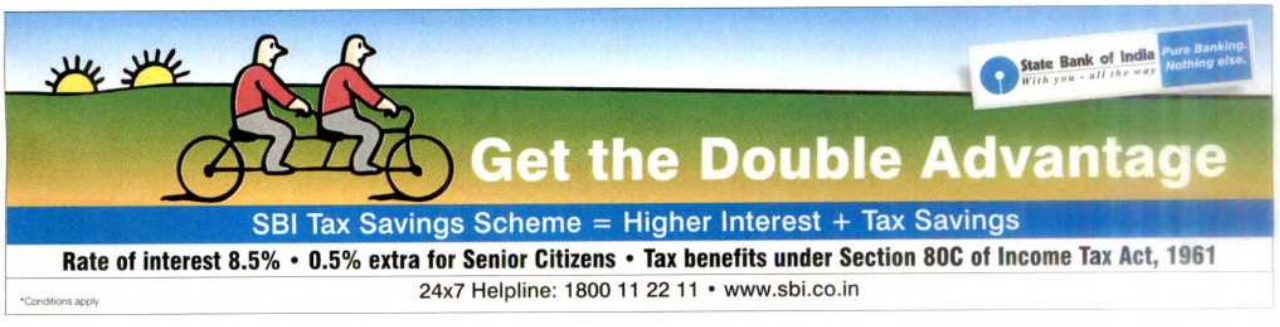
... and limitations

"There is no uniform rule or law that can be applied to all 28 states. The state-specific issues such as tax procedures, processes and return formats will remain even after its implementation. Also, GST is biased towards consumption states as producing states will have no authority to claim taxes on their production," says Pratik Jain, Executive Director at KPMG India. Analysts also feel that GST could be inflationary in the short term. "Since GST is collected on the value added at each stage of sale or purchase in the supply chain, the prices go up," says Jain.

GST will also affect millions of small and medium enterprises, or SMEs, in the country. They are presently exempted from excise duty if their annual turnover does not exceed ₹1.5 crore but this limit is expected to come down under the new regime.

Global experience

GST has been implemented in some 130 countries, with over 40 models currently in force, each with its own merits and demerits. While Singapore and New Zealand tax virtually everything at a single rate, in Brazil and Canada the rates vary among the provinces. The success of GST depends on keeping exemptions to the minimum — New Zealand has the least number of exemptions and the most comprehensive coverage of GST.



Small Screen, Big Stakes

TV manufacturers are betting big on the World Cup to drive sales but Team India will have to deliver on the field. BY SHAMNI PANDE

The Men in Blue are being cheered on by durable majors in India every time they take to the field in the 2011 Cricket World Cup. A good show by the Indian team, they are confident, will result in a spike in television sales.

Already, concerns over rising input costs have taken a backseat as TV manufacturers put into motion well crafted strategies to take full advantage of the World Cup matches. Naturally, it is raining discounts and offers. So, if Sony has tied up with Airtel to offer an Airtel Digital TV HD connection with every Bravia LCD TV sold, Samsung has launched zero per cent finance offers as well as a dish TV set-top box free with every flat panel TV.

"Sony India plans to capture 40 per cent market share in the flat panel TV segment during the World Cup in February-March. Sony has set a target of selling 2.5 lakh units of Bravia HD TV during this period," says Tadato Kimura, General Manager (Marketing), Sony India.

Other companies are just as aggressive. LG's Lead XI campaign, a joint initiative of the International Cricket Council and LG, gives winners from a draw of TV buyers the opportunity to lead the cricket players on to the field for their matches. All these companies are focusing on the sales of flat screen TVs — the fastest-growing segment — during the World Cup. Durable majors are betting big on plasma, HD LCD and LED sets. Newer, smaller models with extra features, which have been launched in the run up to the World Cup, are redefining the TV market.

BIG PLANS

- TV makers woo consumers with discounts and special offers
- Most companies expect a surge in flat screen sales
- Newer, smaller models launched in the run-up to the World Cup

Says R. Zutshi, Deputy Managing Director of Samsung India: "Smaller screens, growing awareness and affluence among Indian consumers will help TV makers drive sales." According to industry estimates, sales of flat panel TVs will zoom 50 per cent in 2011 largely due to the World Cup.

"We are targeting more than 100 per cent growth in sales during the World Cup over the same period last year," says Rohit Pandit, Business Head for Home Entertainment, LG Electronics India.

Now, TV manufacturers are keeping their fingers crossed and hoping that Captain Marvel, Mahendra Singh Dhoni, and his team deliver on the field.

NUMBERS OF NOTE

₹2,000 CR
Equity sought from the government by Aviation Minister Vayalar Ravi for financially-troubled Air India.

₹4,000 CR
The expected losses of state-owned telecom giant BSNL at the end of the current financial year.

₹147.84 CR
The losses suffered by Assam's exchequer in 2009-10, thanks to its 25 loss-making PSUs.

₹907 CR
The amount of equity capital the government is expected to infuse into Dena Bank and Vijaya Bank.

₹246 CR
The amount paid by the Board of Control for Cricket in India to insure the 2011 ICC Cricket World Cup against event cancellations and terrorist attacks.

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A new laptop from the Acer stable and the fourth iteration of the BlackBerry Bold

Application

One of the first iPad applications targeted at an Indian audience

Mint on the Decade (Apple iPad, free)

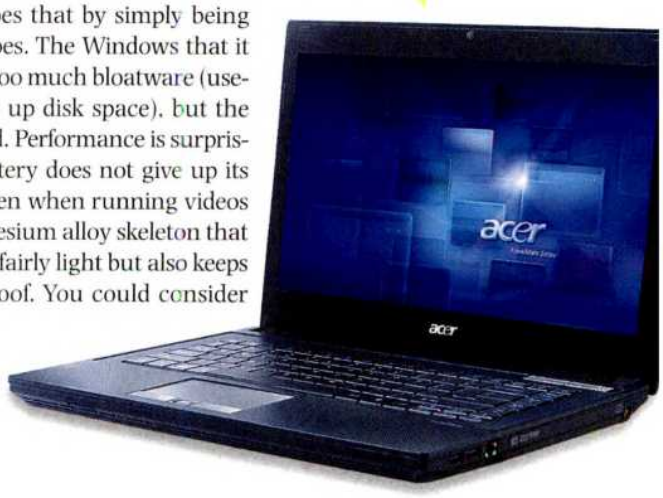
Kudos to *Mint* for creating the first iPad application by an Indian media organisation. In terms of design and layout, the application is very good, particularly with navigability. There are some problems, though. Pinch-to-zoom does not work, though the font size is reasonably good. A reason behind that could be the highly visual design of the content. Zooming could have created havoc with the layout.

All the content downloads when you install the app. This does mean that the install time is unduly long, even on a relatively fast Wi-Fi network.

Zippy Performer

Acer Travel Mate 8472

Most laptops these days have become commoditised. Unless you own a MacBook. But that said, this new laptop from Acer does try hard to stand out. And it does that by simply being fairly good at what it does. The Windows that it comes with still has far too much bloatware (useless software that takes up disk space), but the device itself is fairly good. Performance is surprisingly zippy, and the battery does not give up its ghost for a long time even when running videos non-stop. It has a magnesium alloy skeleton that not just makes the body fairly light but also keeps the hard disk shock-proof. You could consider buying one.



- ⊕ Light, durable, long battery life
- ⊖ Looks ordinary

Price: ₹44,000

The Best BlackBerry

This is the fourth iteration of the Bold since it was launched in 2008. But it is the first to get the new BlackBerry OS 6.0 previously seen on the Torch, and also looks closer to the second-generation Curve than to its Bold predecessors. A bigger change, though, is in terms of performance. The new BlackBerry OS 6.0 is a lot better and comes with a far improved scrolling and web experience and a much better media player. It also continues to do the things it should do well, such as e-mail. If you want a BlackBerry and have some money to spend, this is the device to buy. But if you already have a recent version, the 9780 does not make a compelling argument for you to upgrade your phone.

BlackBerry Bold

- ⊕ Improved operating system and sleeker looks
- ⊖ No compelling upgrade argument

Price: ₹27,000

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BT-ERNST & YOUNG

Deal Watch

BIGGEST DEALS IN THE PAST 30 DAYS*

K.M. Birla:
Chairman, AB Group

The Aditya Birla Group will acquire a 100 per cent stake in Columbian Chemicals, an Atlanta-based carbon black producer, from One Equity Partners for ₹4,006.6 crore ($875 million). The deal will put the AB Group on the list of leading carbon black players globally, with its production reaching two million tonne per annum. Carbon black is a key raw material for making tyres. Columbian Chemicals will complement AB Group's business with its R&D team, which will focus on process, technology and innovative product development. This is AB Group's second-largest outbound acquisition after the $6-billion acquisition of the Canada-based aluminium company Novelis in 2007.

TARGET	ACQUIRER	INDUSTRY	TYPE	DEAL VALUE (₹ CR)	STAKE (%)
Columbian Chemicals Company	Aditya Birla Group	Chemicals	Acquisition	4,007	100
Tutorvista Global	Pearson Plc	Education	Acquisition	576	59
Maya Appliances – Preethi Brand	Koninklijke Philips Electronics NV	Retail and consumer products	Acquisition	350	100
Subburaj Papers	Seshasayee Paper & Boards	Paper	Acquisition	250	NA
SADA IT Parks	Tulip Data Center	Technology	Acquisition	230	100
Integrated Health and Healthcare Services India	Halcyon Finance and Capital Advisors	Health care	Private equity	202	100
Apollo Hospitals Enterprises	Bank of New York Mellon Corporation	Health care	Investment	200	4
Saisudhir Infrastructures	Global Environment Fund	Infrastructure	Private equity	115	NA
Carzonrent (India)	BTS India and Others	Logistics	Private equity	100	NA

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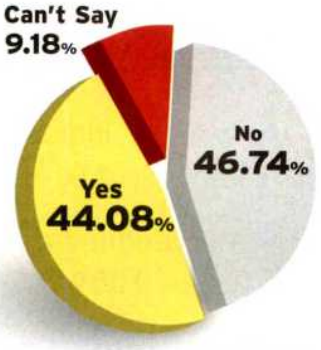
Should the RBI persist with a high interest rate regime to tame inflation?



Results of *BT* online poll; No. of respondents: 199

Most agree that a hard interest rate regime may not yield the desired results for the Reserve Bank of India, or RBI.

The RBI has hiked rates seven times in the past year to check inflation. But the calibrated tightening of rates seems to have had little impact. Perhaps it is not surprising as this time it is supply bottlenecks which are driving prices higher. Contrast this with 2008 when the RBI did the same thing – tightened interest rates to fight inflation. The economy then was overheating and there were visible demand side pressures. The RBI's strategy paid off.

So, will the RBI avoid raising rates further? Unlikely. Expect a fresh round of rate hikes if inflation doesn't cool off. The central bank is hoping to prevent rising food and fuel prices from further spilling over into generalised inflation.

Next poll question:

Would a Joint Parliamentary Committee help in untangling the telecom mess?

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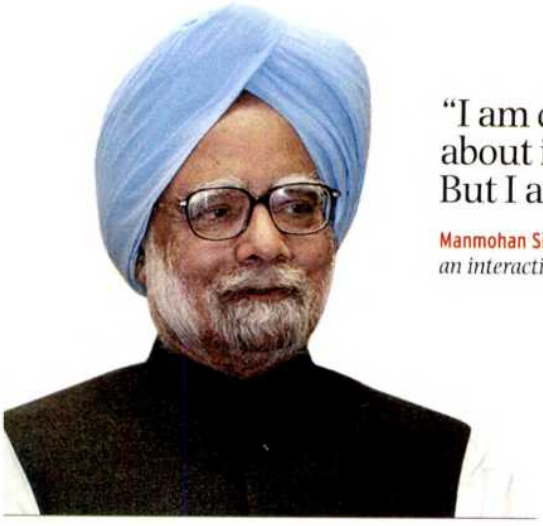


"I am conscious about personal responsibility. I feel about it... I don't say I have never made a mistake. But I am not that big a culprit as is being made out."

Manmohan Singh, *Prime Minister, on the fallout of the scams during an interaction with the media*

"There is a general sense that the terrible period is behind us... (but) those who are not global will fall by the wayside."

Shiv Nadar, *Founder and Chief Strategy Officer of* HCL *Group, on the current business environment, in* Mint

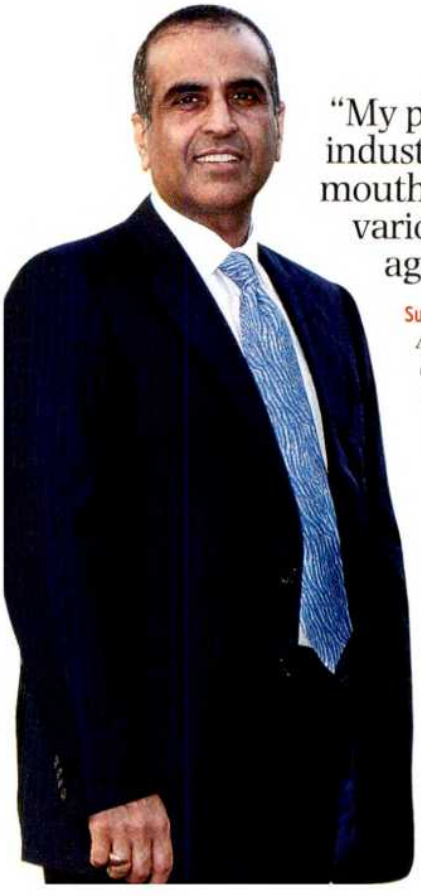
"To effectively compete and ultimately win against Android and iPhone, it would require some big muscle."

Stephen Elop, *CEO of Nokia, on the tie-up with Microsoft for mobile phone operating software, qouted by wire agencies*

AFP/GETTY IMAGES

"We have a China that saves and exports, a Europe that consumes and grows slowly and a US that consumes and borrows. We have to consider whether we can carry on like that."

Christine Lagarde, *Finance Minister of France, ahead of the* G20 *meeting in Paris, quoted by wire agencies*



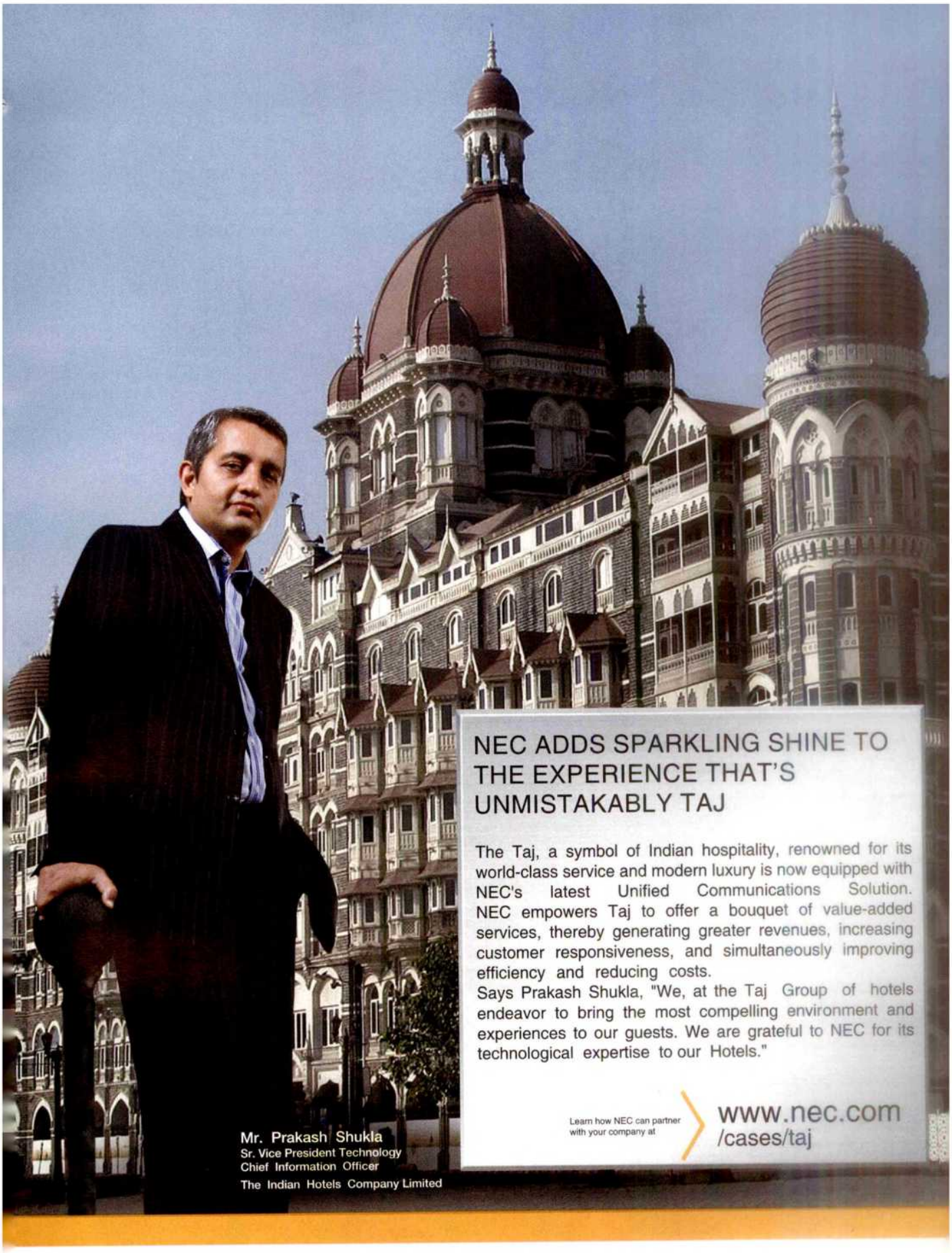
"My plea is that the industry shut their mouths; zip up and let the various investigative agencies do their job."

Sunil Mittal, *Chairman of Bharti Airtel, on telecom operators attacking each other over the ongoing 2G scam investigations, on the sidelines of the Mobile World Congress in Barcelona*

CLASSIC BUSINESS QUOTE

"All people are entrepreneurs, but many don't have the opportunity to find that out."

Muhammad Yunus



Empowered by Innovation NEC

THE TOP 10 Most Watched Ads

January 2011

Surf Excel Washing Mat Range GRPs 1,127

Seconds on air: 4,71,220

Complan GRPs 1,075

Seconds on air: 3,22,175

Vodafone Cellular Phone GRPs 1,044

Seconds on air: 7,60,700

Bajaj Discover 150 GRPs 963

Seconds on air: 2,60,720

Dove Intense Repair Therapy GRPs 948

Seconds on air: 3,39,935

Clinic Plus Shampoo-disney GRPs 842

Seconds on air: 3,10,515

Tata Nano GRPs 793

Seconds on air: 2,68,515

Huggies Care GRPs 785

Seconds on air: 2,50,555

ICC World Cup 2011 GRPs 735

Seconds on air: 3,57,750

Act II Microwave Popcorn GRPs 734

Seconds on air: 1,62,845

With all the hype and hoopla around the World Cup and mobile number portability, or MNP, corporate India was expected to launch high decibel promotional campaigns around these events. However, the ICC campaign features at the number nine spot and Vodafone is the only telecom company whose MNP ad makes it to our list (at number three).

Hindustan Unilever's Surf Excel is at number one as the company makes a concerted effort to make deeper inroads into the detergent powder market.

COMPILED BY SHAMNI PANDE

... THE OTHER 15

RANK/BRAND	GRPs
11 Coca-Cola	646
12 Fair & Lovely Multivitamin	631
13 Lifebuoy Total	615
14 UltraTech Cement	605
15 Stayfree Secure Dry Ultra Thin	601
16 Micromax Mobile	595
17 Maruti Suzuki Ritz	565
18 Sun Direct	547
19 Colgate 360 Actiflex	527
20 Cadbury Dairy Milk Silk	525
21 Head & Shoulders Dandruff	521
22 Cadbury Perk Glucose	502
23 Rin (New Flavour)	481
24 Tata Sky	480
25 Nestle Munch	472

All India CS 4+Yrs; GRP normalised to 30 secs
To see ad duration, visit www.businesstoday.in
Source: TAM Peoplemeter System

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NON CLOG

HORIZONTAL SPLIT CASE

VERTICAL TURBINE

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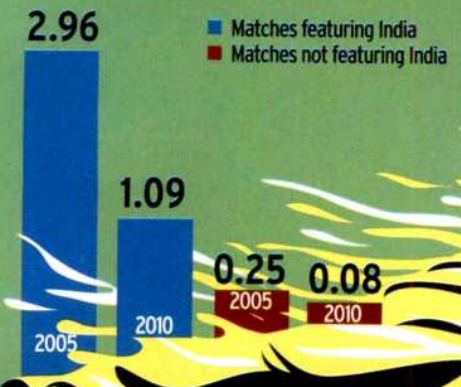
ISO 9001 / ISO 14001 / ISO 18001

Caught and Bowled

India's passion for cricket is the lifeline of the world cricket economy. But according to the TAM ratings, TV viewership of the sport has plunged in the past few years. The beautiful game – soccer – seems to have gained at cricket's expense. **COMPILED BY SHAMNI PANDE**

1 TV ratings of cricket matches have sharply declined...



Figures show average television viewer ratings on a scale of 10

2 ... and ratings of the five most widely watched tournaments in a year have also fallen sharply. **IPL, though, bucks the trend**

5 STEPS TO HERE

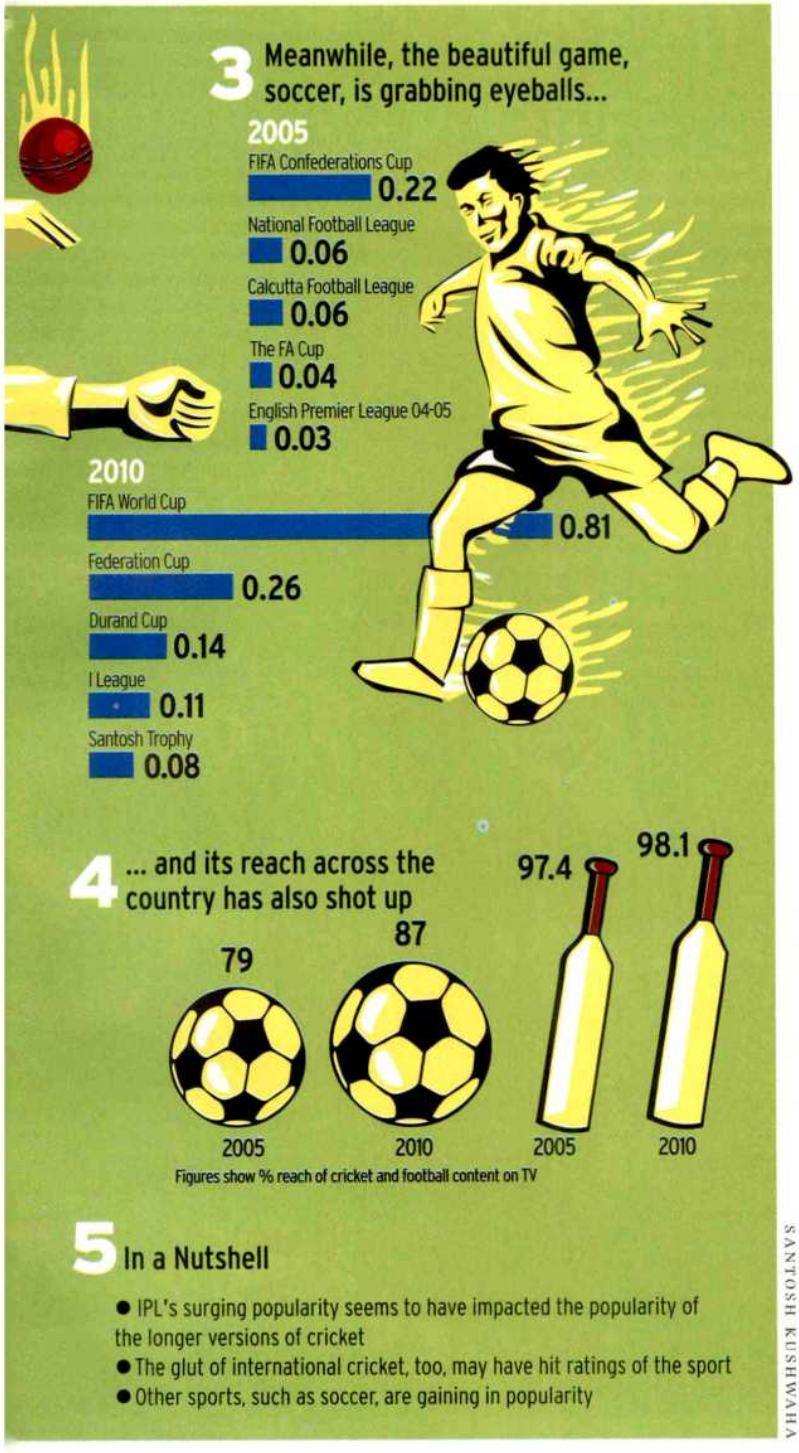
CRUDE CROSSES $100 AGAIN

1

October 2008
Brent Oil prices fall below $100 a barrel as the recession sets in.

2

August 2010
Oil prices begin to rise from $70 a barrel as global economy recovers.



SANTOSH KUSHWAHA

BT Retro
October 26, 2003

Is This Boom for Real?

THEN: Is Sensex 5,500 in sight? Or even — who knows — 6,150, February 2000's all-time high? With India's key stock market index having blasted its way up these past five months, it's not a silly question any more. Why, the markets even shrugged off the world's dollar shudders in September, suggesting a strong case for an upturn based on unalloyed domestic logic.

When corporate chiefs mention the U-word these days, they mean 'U-turn' more than 'uncertainty'. Corporate performances, good so far, are likely to go up; and the Indian economy, having logged a reassuring 5.7 per cent in the first quarter of 2003-04, is likely to outpace 6 per cent for the entire financial year (6.5 per cent is what most projections say).

The real story, however, lies in valuations. Look at it this way. The Sensex's rise from about 2,967 at the start of May to around 4,455 at the start of October may have been a dizzying experience. But the composite P-E ratio — the figure that's more indicative of 'value for money' — of the 30 Sensex stocks has risen only from 12.91 to 16.22 over the same period.

Two things stand out. One, the index's ascent has been accompanied by a steep increase in corporate earnings. And two, an index P-E in the mid-teens is still attractively modest — both by historical and global comparisons. In fact, 16.22 is still less than the index's P-E in January 1991, and less than half the 40s seen during the boom of 1994.

NOW: The Indian stock market has since richly rewarded value investors. The Sensex P-E has been quoting at a premium to other emerging market indices. Analysts feel the India growth story justifies the premium.

3

January 25, 2011
Anti-government protests across Egypt begin, demand the resignation of President Hosni Mubarak.

4

February 1, 2011
Brent crude prices cross $100 a barrel on fears of supply disruption. Over a million people protest.

5

February 24, 2011
Protests in Libya, demanding resignation of Col. Gaddafi, intensify. Crude at $120 a barrel.

T.V. MAHALINGAM

"India Is My No. 1 Global Sourcing Destination"

F. THADDEUS ARROYO, *Chief Information Officer of telecom giant* AT&T, *was among the most sought-after executives at the recently concluded* NASSCOM *India Leadership Forum in Mumbai.* **BT'S RAHUL SACHITANAND** *caught up with Arroyo in between panel discussions and business meetings. Edited excerpts from the interview:*

The world is moving from dedicated and local to virtualised and distributed. I look at this as a kind of multi-tenancy model. If you can create a services platform and have people access it over the network, there is massive potential. In the virtual world, in a shared environment, all I am doing is provisioning my systems. Instead of having to build servers and storage, I just need to provision them.

Time-to-market for new products and services is now down from 18 months to six months. One of the top trends in technology is mobilisation. Because of this, the time it takes to extend an application and change a business model is down to six months. Once I have exposed my applications securely to the external world, I can extend them to my fixed and mobile assets much faster.

India is my No. 1 global sourcing destination. There are some markets, including South America and China, which are promising. However, the access to many of these countries is through companies headquartered in India. I think that competition drives everyone to better levels. India has an advantage – but it needs to overcome its No. 1 hurdle in the lack of infrastructure.

The IT community in India is transforming itself. Labour arbitrage was table stakes, that was a start. The next wave concentrates around how you transform yourself into consultative solution delivery. It is an opportunity for us as business providers, but an even bigger one for the IT industry.

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AMRL HITECH CITY
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HOW THINGS WORK

Switching the Internet off

In an attempt to control the scale of protests in the country, the then reigning Egyptian dictator, Hosni Mubarak, pulled the plug off the Internet for five days. Following suit are countries like Bahrain where the success of the Egyptian revolution has sparked off protests. Here is how it is done.

Although the Internet is virtual and omnipresent, the connection to it is routed through a dominant carrier using fibre-optic cables. A state-owned telecom or Internet company is the router in most countries like Egypt, Bahrain, Jordan, Iran, Qatar and indeed most of West Asia. Essentially, disconnecting the exchange of communication with an international agency is paramount to this blackout.

RAJAT BARAN

Simply put, an e-mail sent to a person via Gmail travels all the way to California and comes back. If this 'circuit' breaks, the e-mail does not reach its destination. Information that is not disseminated results in the notion of a switched 'off' Internet. All Egypt had to do was to disconnect its server routes through its state-owned company Telecom Egypt to ensure the Internet blackout.

JUST WONDERING

Mid-air Turbulence

Will Air India ever make profits? That is a question every taxpayer of the country will ask given the fact that the Comptroller and Auditor General put Air India's losses at ₹8,589 crore this fiscal year. To top that off, the carrier has debts worth ₹40,000 crore. To make matters worse, the civil aviation ministry has sacked Pawan Arora, Chief Operating Officer, or COO, of the carrier's low-cost arm, Air India Express. Arora is widely believed to have been a key hire of Air India COO, Gustav Baldauf, one of the men who is seen as crucial to the turnaround that Air India is attempting to make. Baldauf, a former executive with Austrian Airlines, was appointed as COO of Air India in April 2010. Last heard, the ministry was also taking a closer look at some of the other hires by Baldauf. It looks like this is one story where the happy ending is still a while away.

COMPILED BY ANAMIKA BUTALIA, T.V. MAHALINGAM

Quirky

The "Poor" Rich Farmers

The ministry of agriculture seems to have turned landowners into paupers... figuratively, this time. In Lutiyen, UP, nine landowners, including two women, were made to pose as "model farmers" with green fields as the backdrop. They were told that hoardings with their photographs would be displayed all over Delhi, making them celebrities overnight. Now, six months later, the toothy smiles may disappear from the faces of the landowners as friends and neighbours ask them if all is well. Turns out the ministry morphed the picture – a post office replaced the green fields – and used them as models for an Indira Gandhi National Old Age Pension Scheme ad in a local paper. Having drawn a lot of laughs from their fellowmen and the local tehsildar, these farmers now plan to sue for defamation.

Snoot Corner

Beer with It

The sommelier can take a break because Indians prefer beer to wine. The beverage is actually food-friendly. Here's how you can match your beer with flavourful food. A pint of ale pairs best with burgers, Mexican food, spicy and fried items, pizzas, steaks and cheese. Fruit beer goes with light, white meat, sweeter preparations of duck and pork, pickled dishes, and fruity flavours in salads and desserts. Lager is the seafood lover's delight. It goes well with shellfish, sushi, south-east Asian prep, and even grilled pork and chicken. Pilsners are best had with fish like salmon, tuna and trout, and asparagus. Stout is for roasted, smoked, barbecued, grilled and braised dishes. It also goes with oysters, stews, chocolates and desserts.

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Offshore Prospects

Reliance eyes short-term gains by playing along in British oil major's long-term game.

BY SUMAN LAYAK

The $9-billion deal between Reliance Industries Ltd, or RIL, and British oil major BP could open fresh chapters for both. For BP, the tie-up, which has received a thumbs up from analysts, comes as part of its continuing efforts to reposition its operations — shifting focus from the mature North Sea oilfields and pinning hopes on fresh explorations elsewhere. The deal is also about moving on from the negative impacts of last year's disastrous oil spill in the Gulf of Mexico.

For RIL, the deal, being touted as the largest FDI brought by any single company into India, could mean a way out of its current stagnating situation. The slowing gas output from the Krishna Godavari or KG Basin D6 fields in the past few months has been a real cause of worry for the company as well as the petroleum ministry.

BP's technical prowess and experience in deepwater exploration is expected to ramp up the KG D6 fields' output from the current 56-58 million standard cubic metres (mmscmd) a day. RIL's gas output had fallen in the last two quarters after it achieved 60 mmscmd in the April-June 2010 quarter.

BP will pay RIL $7.2 billion for a 30 per cent stake in 23 blocks along with a joint venture on gas and fuel distribution. It will pay another $1.8 billion if it strikes more oil or gas. The overall investment could go up to $20 billion.

"The negative news flow on RIL's exploration and production, or E&P, business has related to problems on production as well as commercial issues with the Indian government on gas pricing. The BP deal should be able to handle the technical challenge, but the commercial one remains," says a Royal Bank of Scotland, or RBS, report on the deal. RBS had set a target price for the RIL scrip at ₹900 based on the disappointing feedback about the company's E&P business but revised it to ₹966 after the January 21 deal was announced. This is the lowest value of RIL among more than a dozen views on the company so far, but all are unanimous: RIL had major challenges facing it and therefore the deal augurs well for it. "Divesting a 30 per cent stake in 23 blocks is a low price to pay for RIL in return for the technology and expertise that BP will bring," says Brijesh Koshal, Managing Director (investment banking), Daiwa Capital India.

53
mmscmd
Current gas output from KG D6 block, of which 45 mmscmd is being produced from D1 and D3 fields

12.8
per cent
Jump in India's natural gas production, to 53.59 bcm in 2010-11 from 47.51 bcm in 2009-10, primarily due to KG-D6 output

12.67
per cent
Rise in India's crude oil production, at 37.96 mt in 2010-11 from 33.69 mt in 2009-10, owing to RIL's KG Basin and Cairn's Rajasthan discoveries

The script is much more complex for BP. The oil major reported a $4.9-billion loss for 2010, its first since 1992. On the one hand, the company is still trying to recoup its losses from last year's oil spill — it talked of increasing asset sales to raise $30 billion for clean-up costs and liabilities, and set up a $20-billion fund for victims of the environmental disaster, which also cost then CEO Tony Hayward his job. On the other, BP is facing tough choices in Libya, where it has three oilfields. The company evacuated all its employees from Libya two days after the RIL deal was announced. It is divesting its North Sea oilfields that are now mature and struck a $8-billion share swap deal in January with Russia's Rosneft to explore its Arctic blocks. The RIL deal clearly indicates that BP will focus on new markets, play on the future, look for more deepwater blocks and monetise its producing fields. For BP, this is a 5 to 10 year play.

RIL is keen to make the most of the deal now. The RBS report says: "The implied value of RIL assets from the BP deal works out to ₹327 per share compared to our estimate of ₹263." However, the report notes that only a month back

bcm=billion cubic meters
mt=million tonne
mmscmd=million standard cubic metres per day
Source: Economic Survey 2010-11

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Britain presses the gas pedal

Trivia can often be significant. The deal between Reliance and BP was signed at 11 Downing Street, the official residence of UK's Chancellor of the Exchequer, George Osborne. Less than a week before this deal was announced, British Prime Minister David Cameron had written to Prime Minister Manmohan Singh pushing for the Cairn-Vedanta deal and expressing his worries about the ₹11,000crore tax demand on Vodafone. Clearly, the British government takes more than a passing interest in the fortunes of British companies.

British High Commission's Director for Press and Communications, Marcus Winsley says, "The BP-Reliance deal has no direct relation to those other trade and investment issues involving British companies in India that have recently received public attention. It does show, however, that interest by British companies in investing in India is strong." Calling for more transparent tax regime and regulatory climate, Winsley also said the appetite for investment in India is likely to become all the more strong and as the market access increases in those sectors "where British companies are world-beaters, such as professional services, finance, retail and defence".

David Cameron, British PM

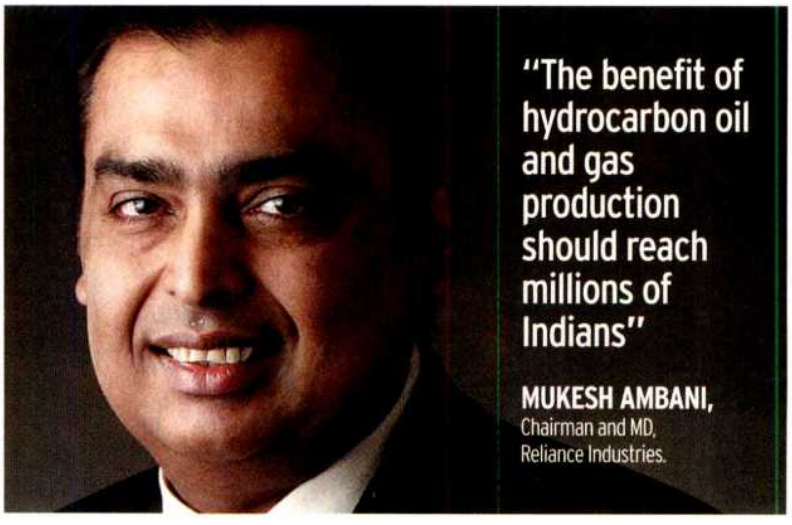
Incidentally, only 40 per cent of BP is owned by British entities while 39 per cent is with US entities.

RBS had sharply cut its valuation of RIL's E&P assets due to disappointing news flow on production and reserves. "Our valuation of the same assets before this cut was nearly ₹395 per share, i.e. BP has paid a lower price for these assets than our valuation of them just one month ago," the report adds. RBS was probably the only one to cut RIL's exploration value. Otherwise, almost every other analyst has valued RIL's exploration assets higher than what BP seems to be paying here: Citibank at ₹471 per share and CLSA at ₹431 per share.

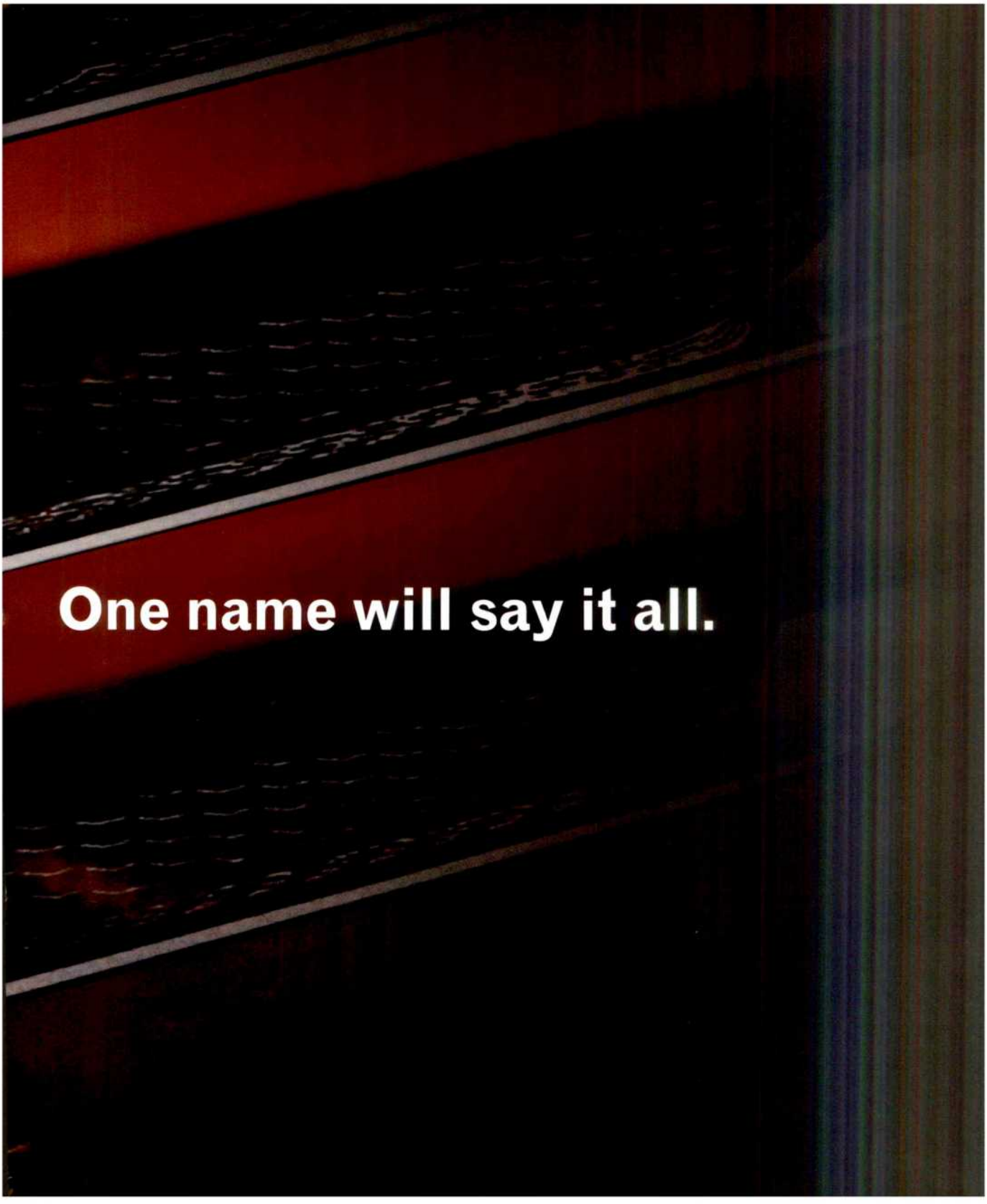
HSBC, however, says the deal will not solve RIL's problem of how to deploy the cash. It has quite a few options: it can find new investment areas or acquire a company, or return cash to shareholders. It can also retire some debt — RIL's debt by 2011-12 end is estimated to be $7.4 billion, which is almost equal to the $7.2 billion that BP will pay upfront. It can even make fresh, concerted efforts to fulfil Chairman and Managing Director Mukesh Ambani's dream of taking natural gas to millions of households in India. Ambani iterated this at the media briefing following the deal. "Hydrocarbon resources are finite natural resources and extremely valuable ... The benefit of hydrocarbon oil and gas production should reach millions of Indians because the quality of life ... is critically dependant on the per capita energy consumption," Ambani said after the signing of the deal.

"With this partnership we will unleash combined expertise to further our shared goal of building this 21st century infrastructure for natural gas for India," he added.

RIL has had negative cash flow for the last five years — it made profits but invested more. It is not likely to change its course. ◆


"The benefit of hydrocarbon oil and gas production should reach millions of Indians"

MUKESH AMBANI, Chairman and MD, Reliance Industries.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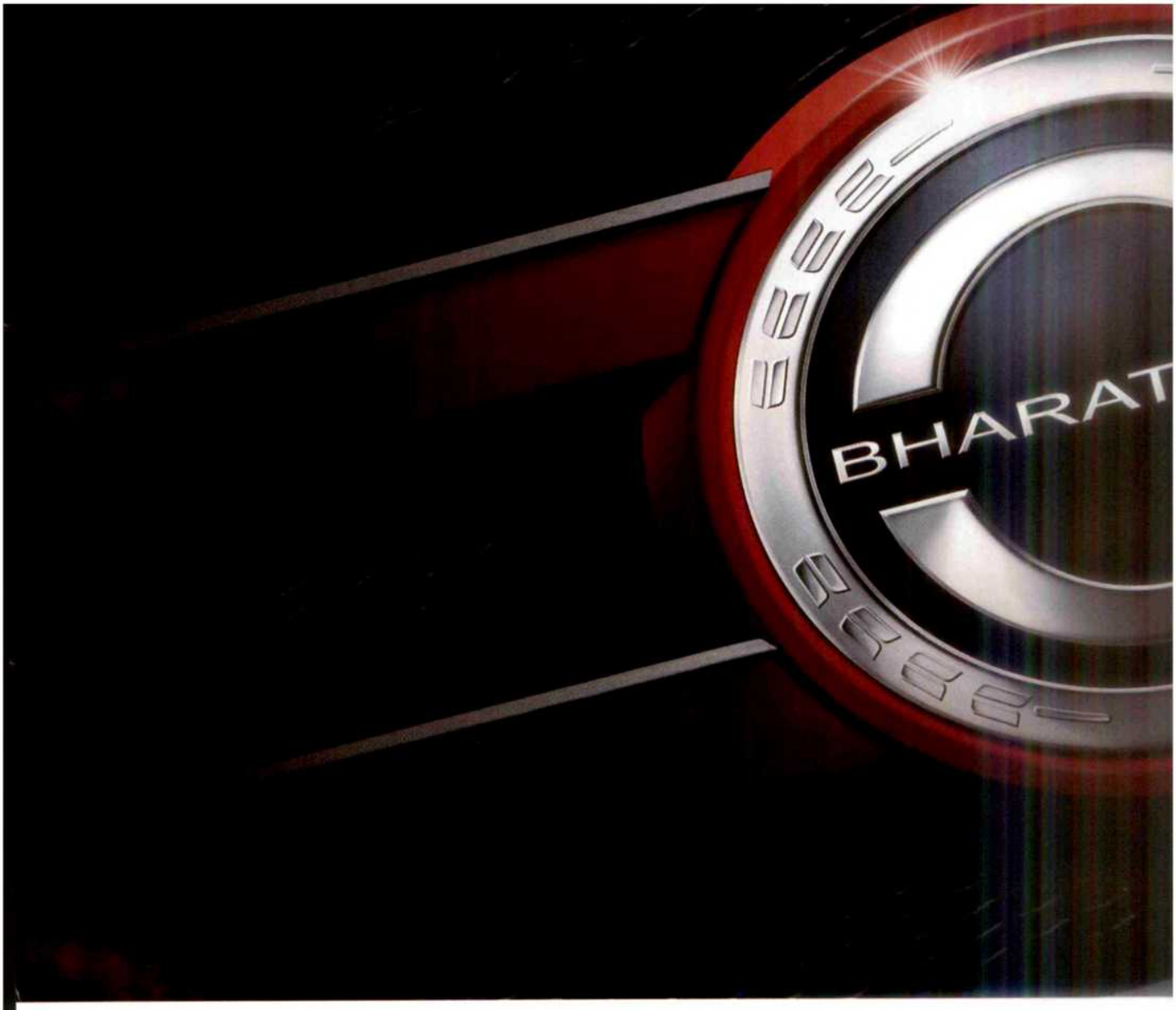

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Batting for the Minnows

Sponsorships of lesser-known teams in the ICC World Cup are going for a song, and Indian companies are cashing in. BY T.V. MAHALINGAM

Almost three weeks before the ICC World Cup kicked off in Dhaka on February 18, Future Group announced it had won the merchandising rights for the tournament. The announcement had two eyebrow-raising aspects. One: India's largest retailing group would rather sell ICC-branded merchandise like caps and T-shirts through its value retail chain, Big Bazaar, instead of its own apparel-focused format, Pantaloon. Two: Future said it hoped to sell over a million pieces of merchandise during the World Cup — a figure unheard of in the Indian sports merchandising business.

A week into the tournament, Future Group seems to have got its numbers right. "The response to our World Cup fan merchandise has been overwhelming," says Sanjeev Agarwal, Joint CEO, Big Bazaar. "We have already sold about 45 to 50 per cent of our inventory since the launch across 146 Big Bazaar stores. We expect another spike in demand with the competition entering the next round." He adds that the Sach brand of personal care products — everything from toothpaste to soaps branded after Sachin Tendulkar — is doing well since the cricket season began.

Future Group is not the only company to hitch its sales onto the cricket bandwagon. Sony India has unleashed a ₹100-crore campaign, featuring India captain Mahendra Singh Dhoni. This is Sony's single biggest marketing campaign since it began operations in India in 1994, and seeks to boost the sales of Bravia, its high-definition TV brand in the flat panel TV segment. Sony hopes that the tournament which will be broadcast on high definition, or HD, for the first time, will help it sell 2,50,000 units in the World Cup-IPL season.

As branding consultant Harish Bijoor puts it, "Cricket is the lowest common denominator activity for a marketing outreach in India." The numbers back Bijoor's assertion. According to data from TV ratings agency, TAM Media Research, the inaugural match between India and Bangladesh was watched by 27.4 million viewers in the six metros. TAM data also reveals that

Netherlands cricketer Ryan ten Doeschate plays a shot against England in Nagpur on February 22

AFP

the average ratings of the inaugural match across the metros was 11 per cent higher than the opening match of IPL Season 3.

Viewership ratings, however, cannot explain the bizarre hat-trick of sorts that happened off the field last fortnight. First, dairy giant Amul signed up the Netherlands team for a year. A couple of days later, Bangalore-based Karuturi Global, the world's largest exporter of cut roses, inked a similar deal with Kenya. Base Corp, a little-known maker of inverters from Bangalore, followed suit and signed up the Canadian team.

At first glance, these investments do not make sense. Why would Indian companies want to pay good money for their logos to appear on the jerseys and caps of minnows like Canada, Kenya and the Netherlands, especially when the first two do not play India in the first round? The answer is these companies are playing a 'percentage shot', to put it in cricketing parlance. In May 2010, the Board of Control for Cricket in India, or BCCI, announced that the Sahara Group had won the team sponsorship rights for Team India till 2013. Sahara had nosed ahead of Bharti Airtel by placing a winning bid of ₹3.34 crore for every match the team played.

On the other hand, Amul paid a total of just around ₹1 crore to acquire the sponsorship of the Netherlands team. "We have been looking at being associated with the World Cup for sometime now," says R.S. Sodhi, Managing Director, Gujarat Cooperative Milk Marketing Federation, the cooperative body that owns Amul. "We are targeting the younger segment and found that sponsoring a team is cheaper than buying a TV ad spot." In the past, Amul has historically invested less than one per cent of its turnover in ad spends.

Currently, 10 seconds ad spots on ESPN Star are going at ₹3.5 to 4 lakh. The rates are likely to go up significantly if India makes it to the knock-out stages. Besides, a team sponsorship, even that of a lesser-known team, ensures better visibility compared to that obtained in the heavily cluttered TV ad space, says Bijoor.

Another reason why these companies are signing on international teams is the global nature of some of their businesses. Karuturi Global could not care less about the viewership of Kenya's matches in India. "We have over $100 million invested in Kenya. It is the jewel in the crown of Karuturi Global," says Ramakrishna Karuturi, founder and MD. "The deal is more of a brand-building exercise in Kenya. We are looking at a 10-year association with the team," he adds.

Amul is thinking of reaching out to an international audience with its deal. "The brand is going global. It is already being sold in the US. This association will further boost its image," says Shashi Sinha, CEO, Lodestar UM, which brought Amul and Team Netherlands together. Then, there are the 100-odd free tickets that come along with sponsorships — companies can distribute them as freebies to keep their distributors and suppliers happy.

Finally, there can always be surprises in the game. The Netherlands stretched England to the last over in a tight finish — a match that the latter was expected to win sleepwalking. An upset by Kenya, the Netherlands or Canada would have its share of cheering in India too. After all, their Indian sponsors are watching. ◆

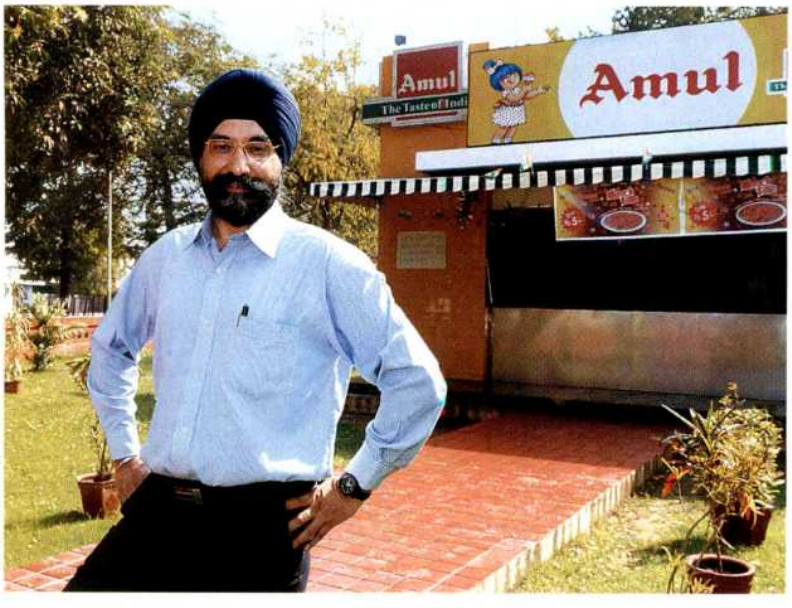
ADDITIONAL REPORTING BY ANUSHA SUBRAMANIAN

Reverse Swing

- **Future Group** hopes to sell over a million pieces of ICC merchandise through the World Cup. Half of its inventory is almost sold.
- **Sony India** has launched a ₹100-crore marketing blitz around the cricket season.
- **Over ₹1,300 crore** worth of television advertisements are expected to be aired during the broadcast of the World Cup and IPL.

R.S. SODHI, Managing Director, Gujarat Cooperative Milk Marketing Federation

"We found that sponsoring a team is much cheaper than buying a television ad spot"



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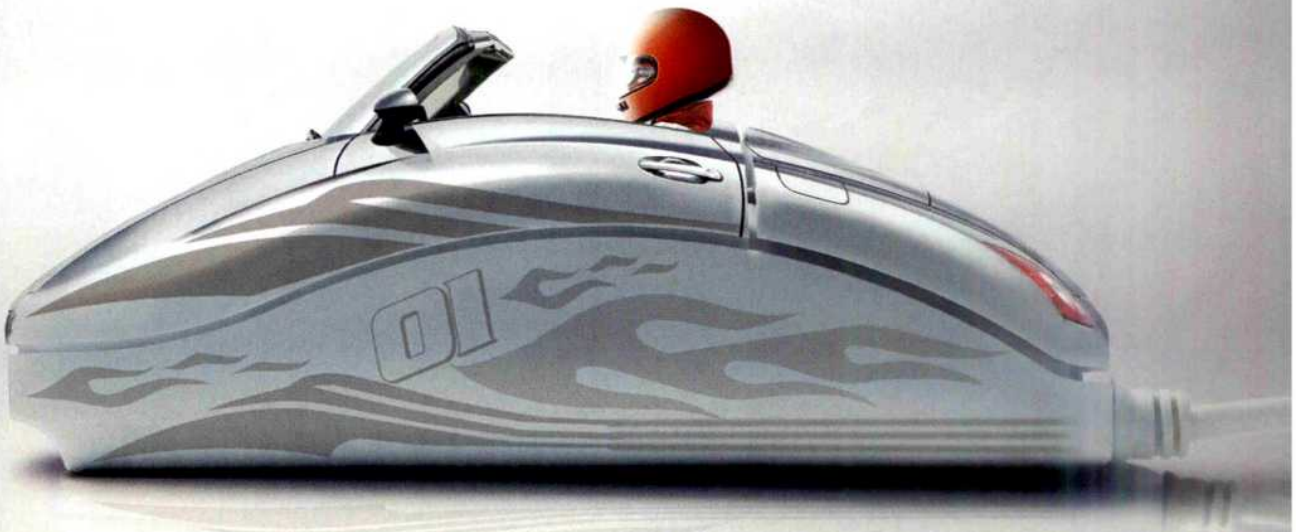

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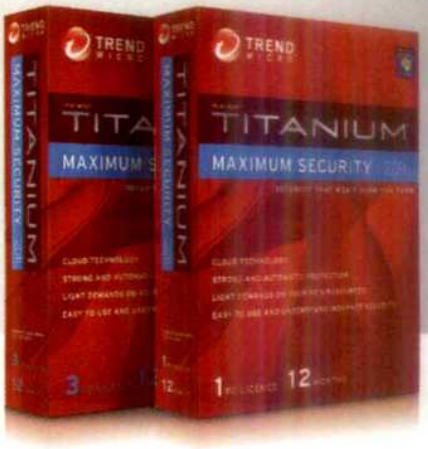

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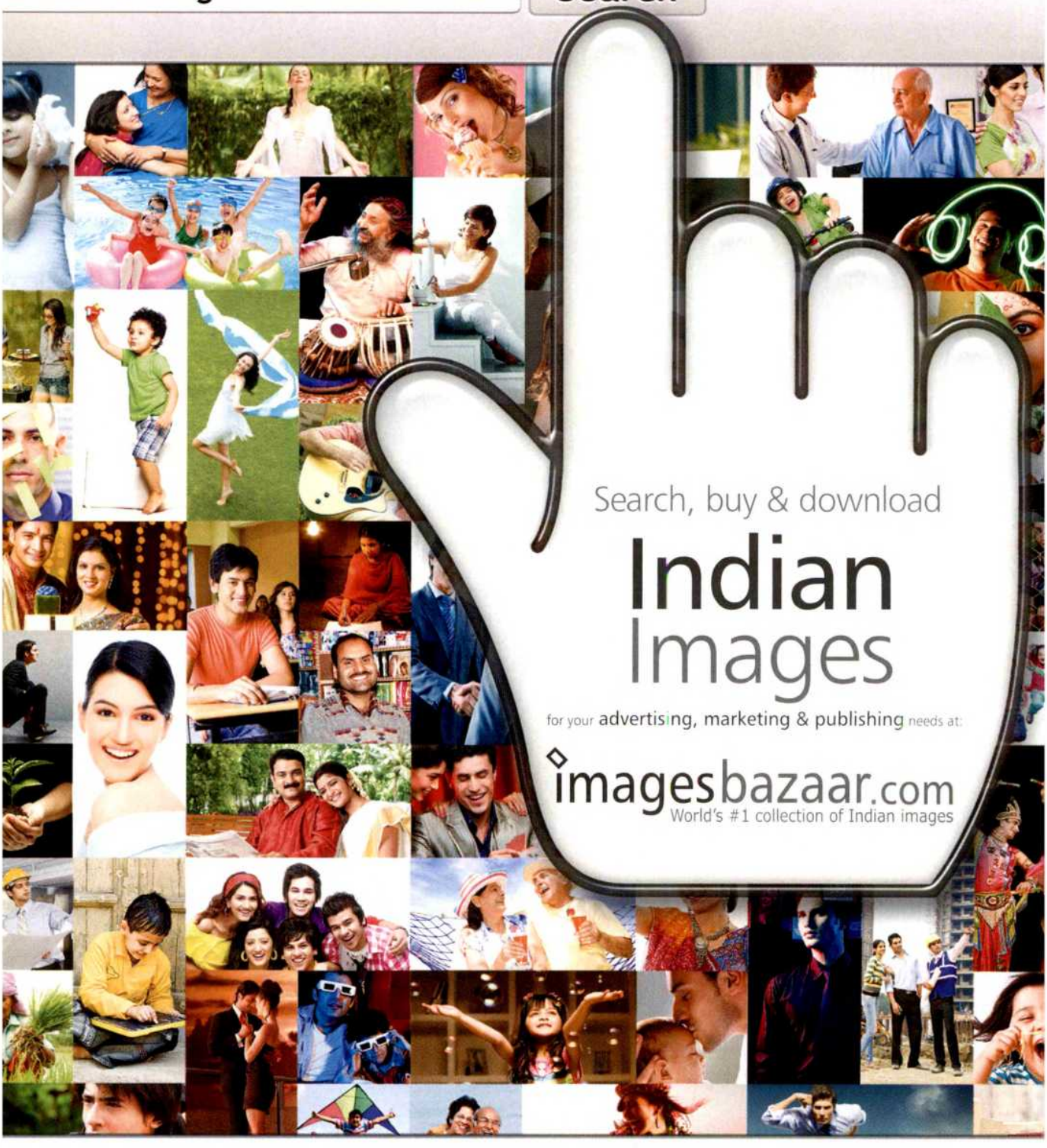

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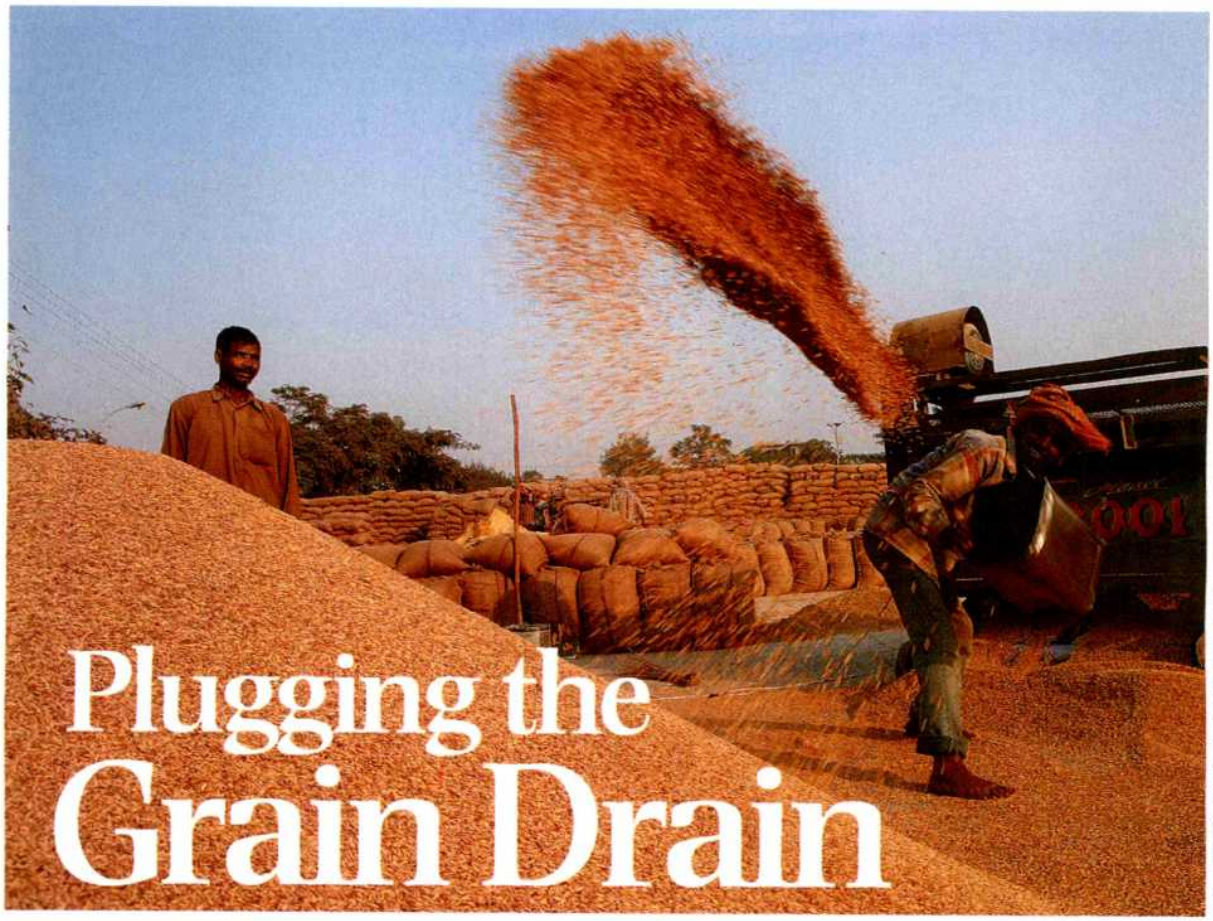

SHEKHAR GHOSH/www.indiatodayimages.com

Plugging the Grain Drain

Karnataka launches unique clean-up drive against bogus ration cards and fake LPG connections. BY K.R. BALASUBRAMANYAM

Mangsuli is a small village in Belgaum district of north Karnataka with 1,670 households. However, the number of ration cards in use here is more than twice that figure — 4,202. Mangsuli is not alone. At the southern end of the state, in Agasanapura village of Mandya district, the number of ration cards in use is 2,980 against 1,615 households.

The result is a bloated food subsidy bill. Every month, Karnataka forks out an extra ₹100 crore in grain subsidy only because its numbers for people below the poverty line, or BPL, are flawed and far exceeds the Centre's estimate of 32 lakh families. The state foots the additional food bill for the 67 lakh households that are not on the Centre's list. A BPL card holder is entitled to 35 kg of grain every month at ₹3 a kg for rice and wheat, and 4 litres of kerosene at ₹13 a litre. The state government distributed 1.36 lakh tonne rice and 44,000 tonnes wheat each month to BPL families in 2010-11.

States issuing BPL cards beyond the Centre's estimates have to bear the extra expenditure themselves. Few states can claim a near match

The state spends ₹100 cr extra every month on food subsidy for 67 lakh families not on Centre's BPL list

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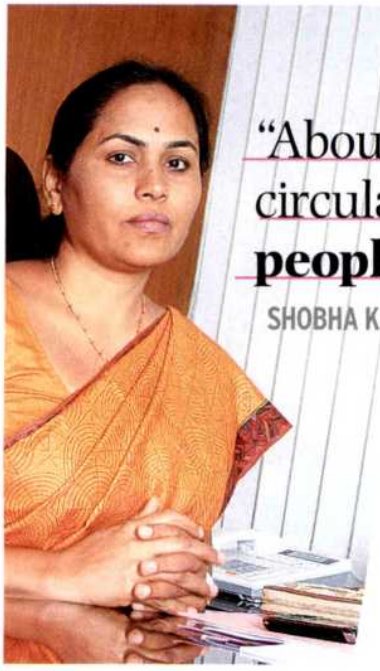

SANJAY RAMACHANDRAN

"About 40 lakh excess ration cards are in circulation in Karnataka, **yet some 20 lakh people are outside the PDS system.**"

SHOBHA KARANDLAJE, Minister for Food and Civil Supplies, Karnataka

between the number of cards in use and the actual number of BPL households. Yet, they do not risk a genuine clean-up effort either due to lack of political will or fear of upsetting their vote banks, or the inability to devise a foolproof filter.

Karnataka is now trying out a combination of logic and technology to get to the root of the problem. Every PDS card in urban areas is being linked to the consumer's electricity installation number, known as the RR number. In rural areas, the cards are being linked to the house tax assessment numbers recorded in the Rural Development department database.

Equally crucial is the problem of domestic gas connections being used for commercial purposes. LPG is available at ₹360 for a 14.2-kg cylinder in the state. To check the misuse, the state Food, Civil Supplies and Consumer Affairs department issued advertisements in January asking all domestic LPG consumers to declare their RR numbers by February 28, failing which they would not get further supplies. Amazingly, as against 70.66 lakh domestic LPG connections in Karnataka, just 38.10 lakh have declared their RR numbers so far. In Bangalore, which has 24.40 lakh LPG connections, only 15.87 lakh consumers have responded.

The state has had some success in the first round of its drive. "A consumer who took an LPG connection three decades ago and died later, lives forever in the official records. Someone else keeps taking the gas supply in his name," says Shobha Karandlaje, Karnataka's Minister for Food and Civil Supplies, who initiated the exercise and is holding ground against attempts to thwart it.

There are an estimated 40 lakh excess PDS cards in circulation, and yet, some 20 lakh eligible people are outside the PDS system, she adds.

While Karnataka alone will benefit from the PDS clean-up, the campaign to weed out fake LPG connections will also help the oil marketing companies and the Centre, which eventually foots the subsidies bill — at the rate of ₹356 a cylinder.

For Karnataka alone, the Centre ends up absorbing about ₹251 crore annually in LPG subsidies. "Our assessment is 30 to 50 per cent of domestic cylinder connections are not genuine and are being used for commercial purposes for which no subsidy is given. We will have exact figures in about two months," says Karandlaje. Even if the drive is able to eliminate 30 per cent of the connections, the Centre will save over ₹80 crore on Karnataka. With global crude oil prices rising, cooking gas prices can only go up, increasing the government's subsidy burden.

"This is a new journey for us in Karnataka. No one has tried this before and I am sure our experience will help other states also," says B.A. Harish Gowda, Secretary, Food and Civil Supplies, Karnataka.

Next on the state's agenda is a drive to plug the leaks in the chain from warehouse to fair-price shops. Since most pilferage takes place between these two points, often involving transporters, the government is planning to ask fair-price shop owners themselves to lift stocks from the warehouses and collect transport charges.

As poverty claims outpace poverty trends, states have little option but to bite the bullet and put their PDS houses in order. As Karnataka is trying to do.◆

STATE OF AFFAIRS

Chhattisgarh handles PDS grain delivery with SMS alerts to people who register themselves for the service

PDS shops in Bihar have been asked to open bank accounts and pay the state food corporation through bank transfers

Haryana's Panchkula has become one of the first districts to give cash transfers instead of grains to BPL families

Karnataka has linked PDS cards to electricity meters or house tax assessment numbers

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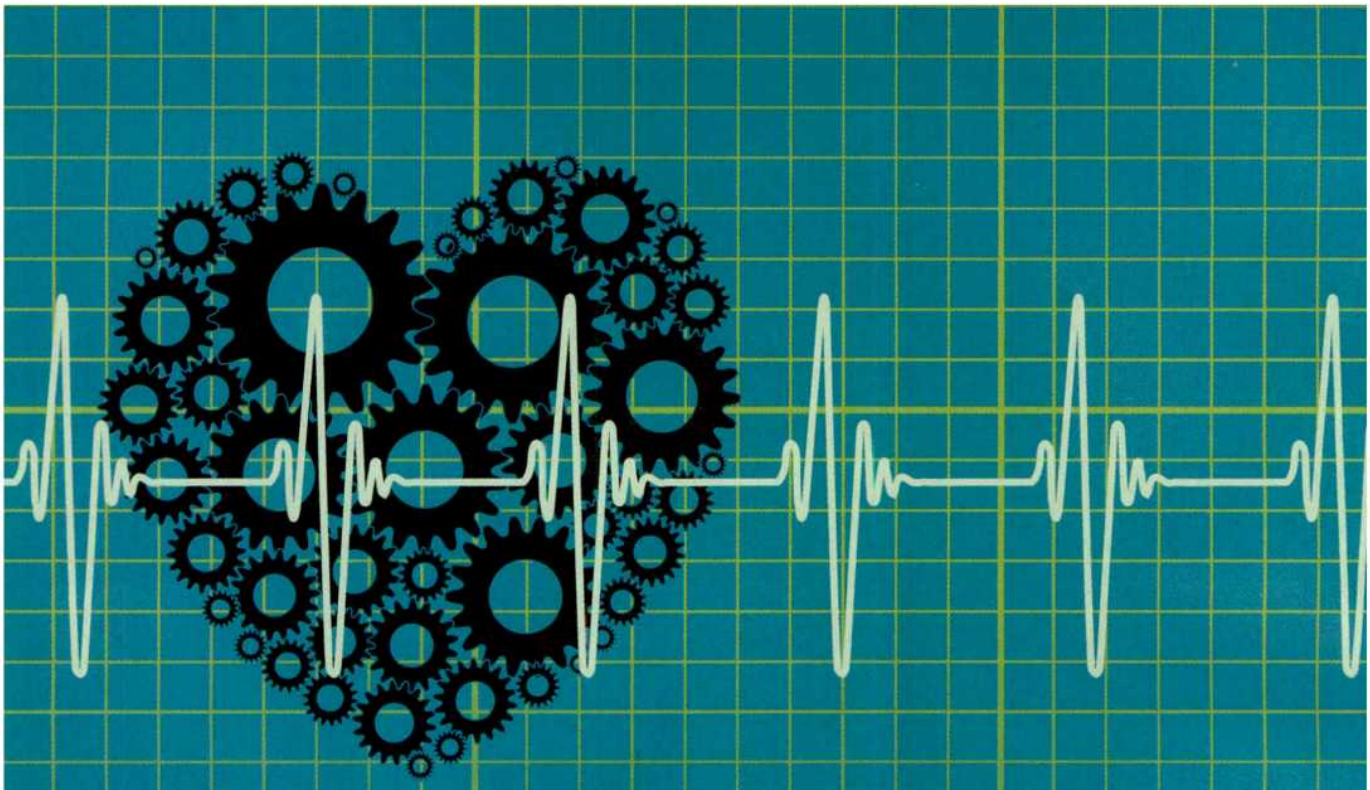

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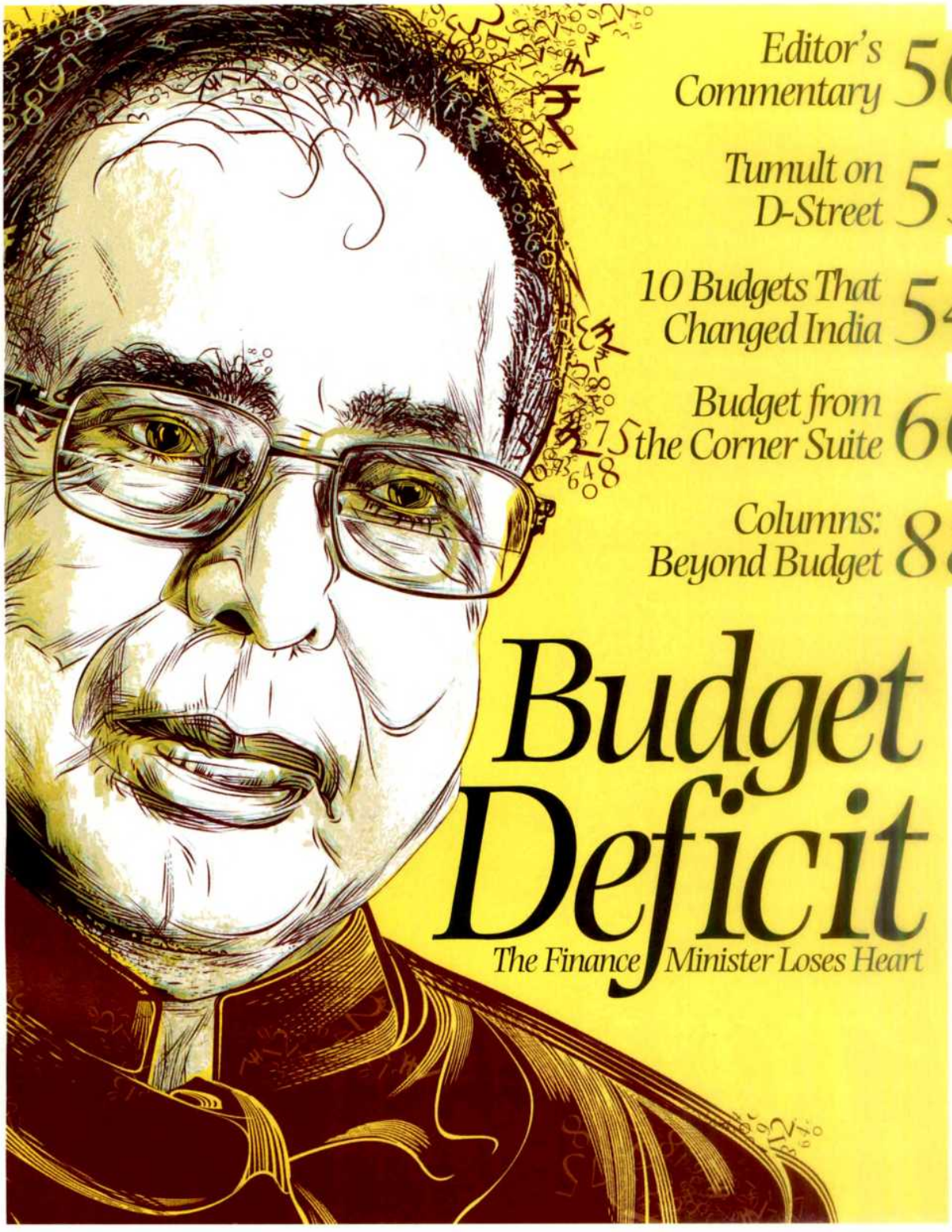

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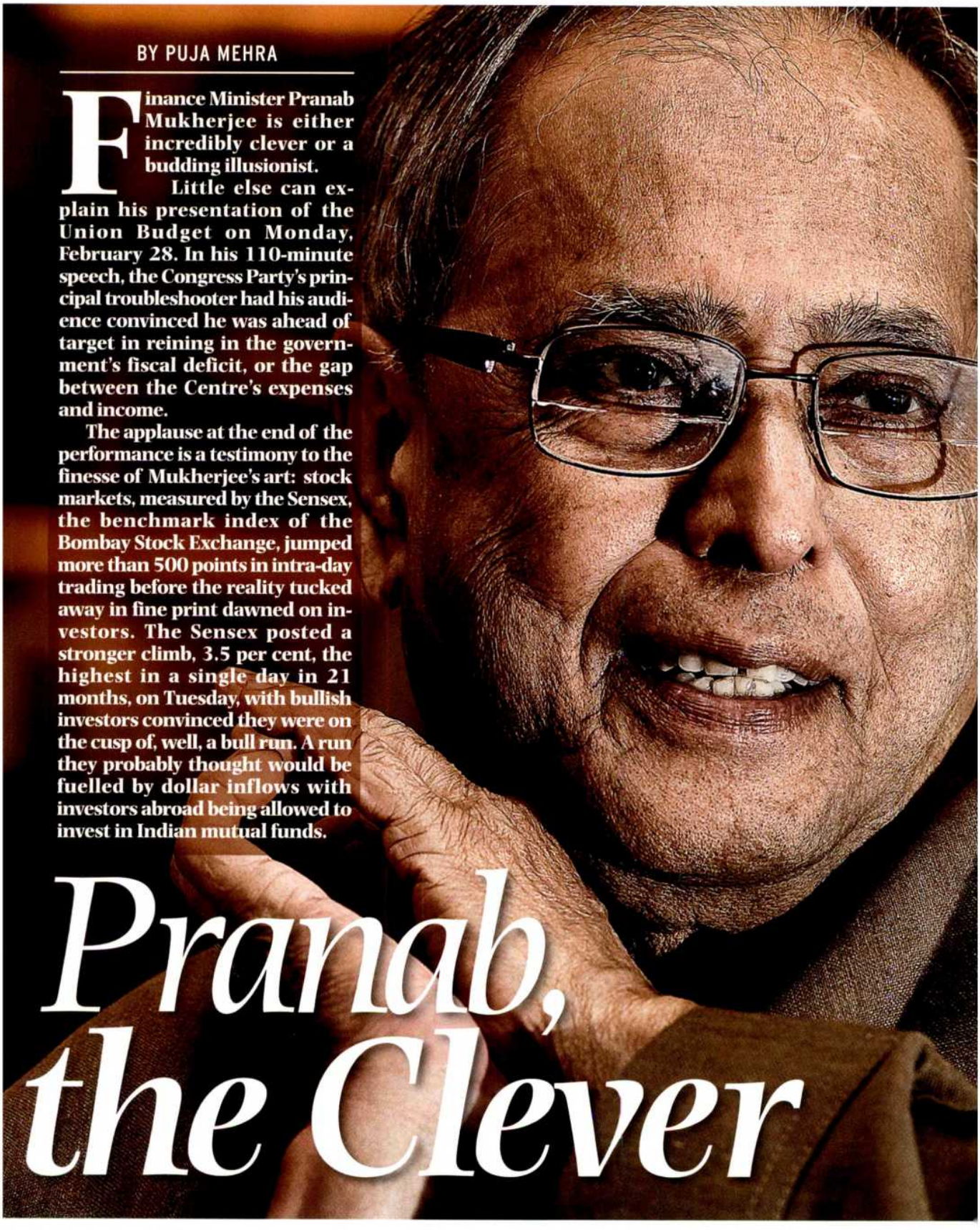


Pranab, the Clever

BY PUJA MEHRA

Finance Minister Pranab Mukherjee is either incredibly clever or a budding illusionist.

Little else can explain his presentation of the Union Budget on Monday, February 28. In his 110-minute speech, the Congress Party's principal troubleshooter had his audience convinced he was ahead of target in reining in the government's fiscal deficit, or the gap between the Centre's expenses and income.

The applause at the end of the performance is a testimony to the finesse of Mukherjee's art: stock markets, measured by the Sensex, the benchmark index of the Bombay Stock Exchange, jumped more than 500 points in intra-day trading before the reality tucked away in fine print dawned on investors. The Sensex posted a stronger climb, 3.5 per cent, the highest in a single day in 21 months, on Tuesday, with bullish investors convinced they were on the cusp of, well, a bull run. A run they probably thought would be fuelled by dollar inflows with investors abroad being allowed to invest in Indian mutual funds.

Mukherjee kept the service, excise and custom tax rates unchanged at 10 per cent, which will probably be the level at which the Central Goods & Services Tax will be set when it is rolled out in April 2012. The exemption for income tax was marginally raised by ₹20,000 — benefitting only men — while a minor uptick in minimum alternate tax on book profits to 18.5 per cent was counterbalanced by a lower surcharge on corporate tax on Indian companies.

These — and dozens of other small measures — all added up to what analysts and newspaper dailies called a "please-all" budget. Chief executives, heads of brokerages and bankers were near-ecstatic that the Finance Minister had seemingly achieved the impossible: balancing the government's budget delicately in a year of five assembly elections, high social spending and an economy that threatens to chug along at a slower speed. All this, without raising tax rates.

The Confederation of Indian Industry, or CII, the most powerful of the business lobbies, expressed happiness over most of the budget proposals, saying, "CII is particularly happy that the Finance Minister has retained the same rate for excise duty and service tax." Harsh Mariwala, Chairman of personal care products maker Marico, echoed the sense of relief. "Certain fears regarding increase of excise duty and service tax have been put to rest," he said after watching the budget speech at the Federation of Indian Chambers of Commerce and Industry office in Delhi. He will be the next president of the industry body.

The biggest cheer for Mukherjee has come because the budget documents show he has reduced the fiscal deficit as a percentage of gross domestic product, or GDP, from 6.4 per cent in 2009-10 to 5.1 per cent in the current fiscal year, which is lower than the target of 5.5 per cent he had set himself in the last budget. But dig a little deeper and you see the fiscal deficit in 2010-11 is estimated to be nearly ₹20,000 crore more than the target.

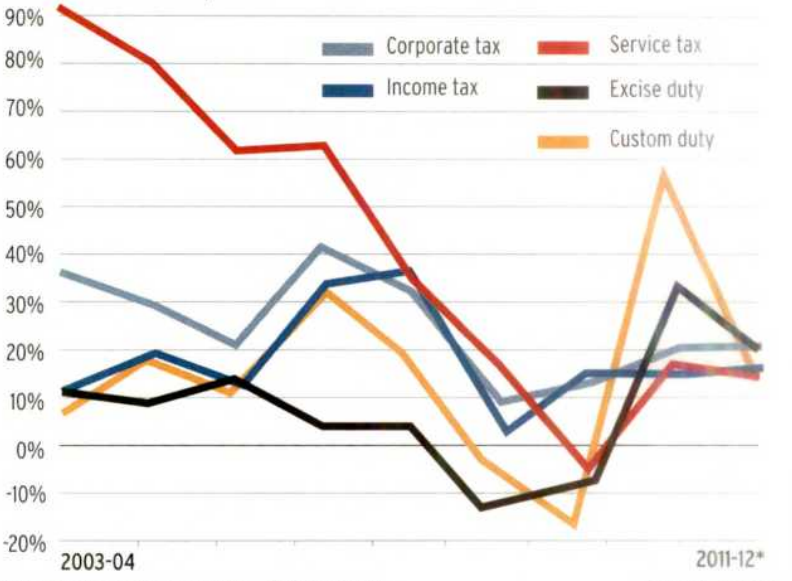
How come? Because the Central Statistical Organisation, or CSO, early in February, revised upwards growth in the GDP — the denominator in the fiscal deficit — GDP ratio. This means that the fiscal deficit target of ₹381,408 crore as a percentage of the new GDP figure would be 4.8 per cent and not 5.5 per cent. In effect, with the fiscal deficit at 5.1 per cent of GDP, the Finance Minister actually missed his target by 30 basis points and did not beat it by 40 basis points. In other words, the budget presents an impression of a better-than-targeted number. "The credit for the fall in fiscal deficit as a percentage of GDP is not due to the finance minister but the CSO," says M. Govinda Rao, Director, National Institute of Public Finance & Policy and member of Prime Minister Manmohan Singh's Economic Advisory Council.

Bharatiya Janata Party's Yashwant Sinha called Mukherjee's budget "pedestrian" and "timid". In the pre-budget issue (*Buy Me, Buy Me Not*, dated March 6), Sinha, who has presented six Union Budgets, had said finance ministers and prime ministers need courage while framing a budget. "If they can't face up to these challenges, then they should not be there," he said.

Numbers can be made to look good or bad depending on how they are juxtaposed. This is the oldest trick in every finance minister's book. Even so, there are certain leaps of faith in Mukherjee's third budget in recent years that seem odd, if not deliberately misleading.

The fiscal deficit target for 2011-12 of 4.6 per cent is based on the projection that the government's spending in the coming financial year will rise less than 4 per cent over that in 2010-11. The fine print of the budget reveals that the lower spend-

Buoyant tax revenues yielded ₹30,000 crore more than target...



Figures are % increases year-on-year *Budget estimates Source: Budget 2011

But custom collections jumped mainly because global oil prices shot up

GRAPHICS BY SANTOSH

ing projection is not due to some fierce belt-tightening planned by the government, but is based on the assumption that global petroleum product and fertiliser prices will not vary much over the next year from the level at the time of drafting the budget. So, at a time when crude oil prices are hardening on the back of a political crisis sweeping West Asia, Mukherjee has actually set the fuel subsidy bill 40 per cent lower.

Even assuming the crude price stays between $90 and $95 a barrel, Citigroup India's analysts expect a fuel subsidy burden of ₹50,000 crore against the budgeted ₹23,600 crore. If the price stays below $90, says D.K. Joshi, Chief Economist at ratings agency Crisil, the government could keep its subsidy bill down. "It appears that they are hoping that the political tensions in West Asia will ease," he says, adding a possibility could be that diesel prices are linked to market. "But that appears unlikely at the moment."

At the finance ministry, the outlook is unusually blasé, a mood rarely seen in its North Block offices in New Delhi under previous ministers who have held the key portfolio. "Oil prices are beyond the finance ministry's control so if they do go up, we will raise supplementary demand for grants from Parliament," says Finance Secretary Sushma Nath, explaining the budget math to BT.

The other big hole in Mukherjee's calculations could come from the government's food security Bill. Though he reiterated the United Progressive Alliance, or UPA, government's commitment to a food security law, Mukherjee has not budgeted for it, keeping food subsidies at the same level as in 2010-11 at a time when food price inflation is stubbornly high. According to Citigroup India's analysts' projections, the additional burden once the law comes into force could range from ₹23,230 crore to ₹35,360 crore.

Minutes after Mukherjee's speech ended in Parliament, Prime Minister Singh hinted the numbers projected in the budget calculations were not watertight. "...We cannot be too certain that ...the arithmetic will work the way we want it to work," Singh said in an interview telecast on Doordarshan. "We must have ample scope to contribute to fiscal consolidation."

"Oil prices are beyond our control. If they go up, we will raise supplementary demands for grants"

Sushma Nath, Finance Secretary

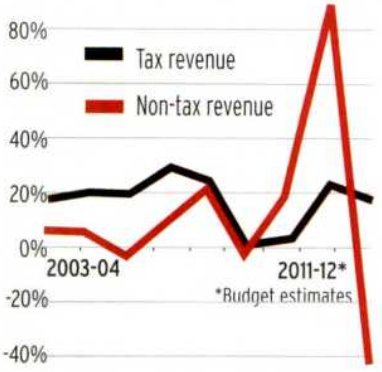
In his speech, the Finance Minister sought blessings from God Indra and Goddess Lakshmi, but later in the year it is the Parliament's best wishes that the UPA government is likely to seek, for the budget has not even accounted for any rise in outlays for the Mahatma Gandhi National Rural Employment Guarantee Scheme despite the likelihood of wages going up following the recent decision to index them to inflation.

In the budget for 2010-11 too, Mukherjee had projected the slowest growth in spending in five years — a target he failed to achieve in the absence of any trimming of public spending, which sent him back to Parliament with demands for supplementary grants more than twice the average sought by previous finance ministers, on more than one occasion. This was despite a never-before bounty — ₹70,000 crore more than budgeted — raised by the government through auctions of third generation telephony and broadband wireless access licences and spectrum rights. It is very unlikely that the exchequer will have recourse to such a one-time source of revenue next year.

Mukherjee, who BT wrote about in October as being a "distracted finance minister" (click through http://bit.ly/staticonthefmchannel), is relying on two factors to save himself from the embarrassment of missed targets. These, Finance Secretary Nath explained, are buoyancy in tax collections — assuming the economy continues barrelling along — and the capacity constraints at the state level in utilising disbursements from the Centre. "The fiscal deficit target and spending figures might not go too awry as we can always reallocate unspent funds from a department to a deficit one as we did in 2010-11," she says.

But the bet on the domestic levies could be hazardous with early signs of the economy decelerating (*India Slowing*, February 20), as analysts noted. "With this budget the government has projected a tidy house by underprovisioning for expenditures and leaving itself very little room for manoeuvre should revenue buoyancy not pan out as expected, or the rise in commodity prices breaches threshold expectations," Japanese securities house Nomura noted in a report after the budget.

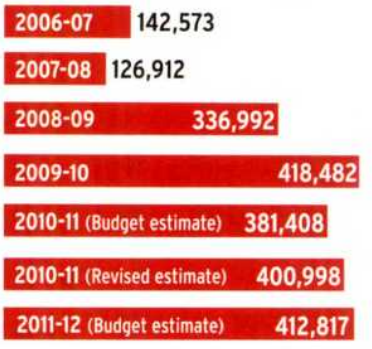
...and 3G & BWA auctions gave 3 times the target...



Figures are % increases yr-on-yr Source: Budget 2011

Yet the 10% Tax-GDP ratio is well below the target of 10.8%

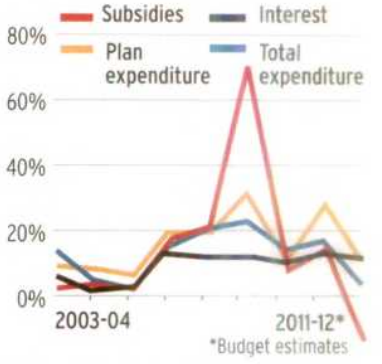
... but the fiscal deficit has, in fact, widened...



Figures are fiscal deficit in ₹ cr Source: Budget 2011

A new GDP should have set it at 4.8%, not 5.5%

Very small expenditure growth is projected



Figures are % increases yr-on-yr Source: Budget 2011, Citigroup

But the subsidies are understated by up to ₹50,000 crore

On the push for growth — GDP is projected to grow at 9 per cent for the budget calculations against the estimate of 8.6 per cent in 2010-11 — Mukherjee didn't sweat. He fell back on the age-old Congress placebo of committees, announcing a total of 11 of them, from one to recommend how to auction mining rights and other natural resources along lines of the 3G auction to another on financial sector reforms.

Though the budget speech's announcement on subsidy reform to be attempted through direct transfer of cash to farmers and consumers for fertilisers and fuel is a positive step, gains on the ground could be slow in coming. Another feel-good but hard-to-realise goal is raising the contribution of the manufacturing sector to GDP in 10 years to 25 per cent from 16 per cent today.

Intermittently, in the speech, a major announcement seemed round the corner, for Mukherjee was candid about the controversies troubling the UPA government. He talked of black money, corruption, governance deficit and food price inflation. But, the fixes he proposed seemed too limited.

For instance, he announced at least 11 different allocations under various heads of the Rashtriya Krishi Vikas Yojana and other similar schemes to fight food price inflation but each one was kept at a mere ₹300 crore as if it were meant for a tiny Pacific Rim island nation rather than the second-most populous nation on earth. As the father of India's Green Revolution, M. S. Swaminathan says of structural agriculture reforms: "Most of the programmes from last year's budget are yet to be implemented properly or have an impact."

> *"The government has projected a tidy house by underprovisioning for expenditures." — A Nomura report*

Not all of that implementation is the finance ministry's responsibility. The ministry's primary agenda is to raise revenues, especially from taxes, which the budget projects will grow 18 per cent to ₹664,457 crore, and make allocations. Delivery of services and monitoring of outcomes is in any case the job of the state governments, Central ministries and the Planning Commission.

Then, if the GST and Direct Tax Code kick in from April 1, 2012 — a twice revised deadline — the ministry will be left with little leeway. In fact, Nath admits that in two years, finance ministers will have to do away with the 'Part B' on tax proposals in budget speeches. By abdicating blockbuster reforms, typically flagged in Part A (See *10 Budgets That Changed India*, page 54), he poses a Darwinian threat to future budgets.

Yet, the 75-year-old was exuding confidence. "The Number 3 happens to be my lucky number," he joked mid-way into his budget speech. In the last two budgets, Mukherjee rode on luck rather than smart budget making to deliver results. Will he get third time lucky? ◆

ADDITIONAL REPORTING BY RISHI JOSHI, MANU KAUSHIK AND N. MADHAVAN

ILLUSTRATION BY RAJAT BARAN

When I'm sixty-four

Give me your answer, fill in a form Mine for evermore
Will you still need me
Will you still feed me
When I'm sixty-four?

Average life expectancy at birth for Indians in 2010 was 64.4 years, which means the Beatles song could be an elegy. We fared more poorly than our neighbours Bangladesh (66.9), Sri Lanka (74.4) and Pakistan (67.2).

Independent India is going to be 64 this year, and the census-takers are filling their forms and seeking answers from more than 1.2 billion of us, a seething subcontinent of noise, tumult, hard work and yes, corruption too.

Somehow the government's annual budget is seen as the multivitamin that will put the bounce back in our steps. Pranab Mukherjee's third budget for UPA-II was workmanlike and plodding, with only an occasional spring in its step. Elixir it was not. It seemed as if the Finance Minister was sinking back in the cushions of an economy growing at the "Hindu rate of reform", about 9 per cent. He protested that his budget was not populist, and blamed the absence of dramatic reform with the same lament: crucial financial-sector

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legislation would move forward "if I had 272 (MPs) in the Lok Sabha and 124 in the Rajya Sabha".

So there is quite a bit of sleight of hand in the 13,800-word budget speech that eclipsed cricket and sent the stock markets into a brief tizzy. The individual tax-payer will get a smidgen more of spending money, but it will be quickly snatched away by service tax on more items, and the ominous inevitability of high inflation — something that Mukherjee's Chief Financial Adviser Kaushik Basu does not think is too alarming. In a strange new global economy, Basu says, we have a new form of stagflation — stagnation in some parts of the world, inflation in others. Money flows to the magnets, and India is a magnet, like it or not.

But Mukherjee can see the ghosts. "The huge differences between wholesale and retail prices and between markets in different parts of the country are just not acceptable," he said in his budget speech. "These are at the expense of remunerative prices for farmers and competitive prices for consumers."

The budget is therefore a *khichdi* of cold chains, mega food parks, "pulses villages", "vegetable clusters", more pigs, goats and fish on the dining table, and cheaper pistachios and diapers. The Finance Minister has some fun too. Many of the steps he lists to attack food-price inflation all involve paltry outlays of ₹300 crore each and will glance off that monster's tough hide. "Hon'ble Members may be curious as to why all these new initiatives are being launched with an allocation of ₹300 crore. Well, the number 3 happens to be my lucky number!"

Pranab Mukherjee's third budget for UPA-II was workmanlike and plodding, with only an occasional spring in its step. It seemed as if Mukherjee was sinking back in the cushions of an economy growing at the "Hindu rate of reform"

Mukherjee said. Nobody laughed.

As we predicted (BT, *February 20 2011, http://bit.ly/electionstupid*) quite a bit of spending will take place in states going to the elections this year. This, plus a 17 per cent increase in social sector spending to ₹160,887 crore — 36.4 per cent of total plan allocation — is proof enough of the safe furrow Mukherjee is ploughing.

Is the harvest going to be bountiful? The signs are not propitious. Corporate profit margins are getting squeezed. Industrial production has dropped. Manufacturing is not growing fast enough.

Mukherjee wants to see manufacturing rise to 25 per cent of India's GDP, from the current 16 per cent. The Economic Survey for 2010-11 notes that Indian manufacturing is less than 1.4 per cent of world manufacturing.

There is a fair bit of philosophising, too, in the Survey: "Many a noble plan to reach out to the poor and increase the welfare of our citizens has fallen on hard times because of the policymakers' propensity to assume that the policies are delivered by flawlessly moral agents or perfectly-programmed robots."

The budget fiddles around the edges of corruption and poor governance. Yes, there is definite movement towards direct transfers of subsidies to the poor for kerosene, cooking gas and fertiliser, but much is left to committees and panels.

What are the main concerns? The fragile global recovery could cause a "reversal of capital flows and slowdown in exports". The current account deficit is too high — it rose to 3.7 per cent of GDP in the first half of 2010-11 from 2.2 per cent a year earlier. Mukherjee admits he would have preferred a level around 2.5 per cent. The Survey says periodic surges in capital flows need to be absorbed more efficiently. It also warns that the bulk of capital inflows consisted of foreign institutional investor, or FII, funds. The World Bank separately cautions that renewed shocks to the global financial system could trigger a "flight to safety" by investors. The Economic Survey notes that FDI in

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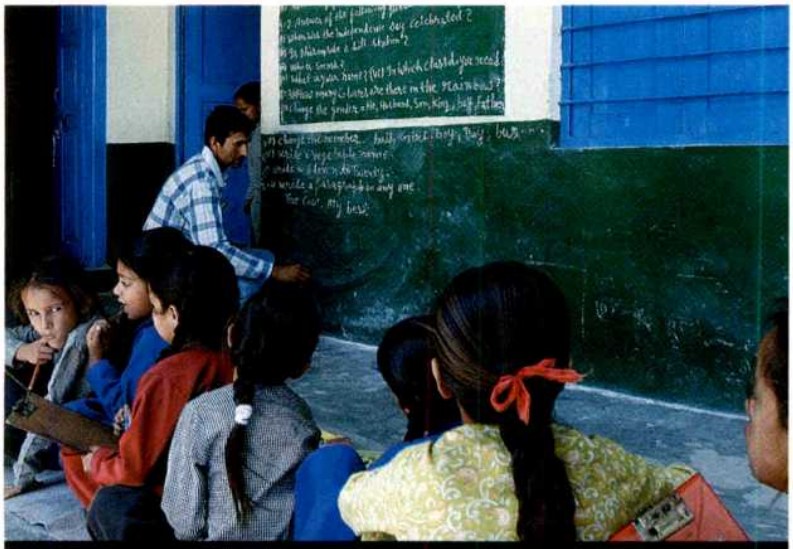
April-November 2010 totalled $19 billion, nearly the same level as a year earlier, while portfolio investment including FII inflows rose sharply to $32.8 billion in the eight-month period from $22.2 billion a year earlier.

budgeted ₹1.16 trillion in 2010-11 (the actual subsidies bill will total ₹1.64 trillion). Mukherjee did not take any bold steps to slash subsidies. The fiscal deficit in 2011-12 is projected at 4.6 per cent of GDP, down from 5.1 per cent in 2010-11.



SHEKHAR GHOSH

A report says children in India got only 4.4 mean years of schooling in 2010, lower than in Bangladesh, Sri Lanka and Pakistan

Mukherjee announced sops designed to attract more investment inflows. Foreigners can now invest directly in Indian mutual funds. FIIs can buy a total of up to $40 billion in corporate bonds, and invest in unlisted bonds with a minimum three-year lock-in.

Subsidies of every hue will total ₹1.44 trillion in 2011-12, up from a

Disinvestment may bring in the targeted ₹40,000 crore (the same as 2010-11, when only ₹22,144 crore was raised), but there is no windfall on the cards like this fiscal year's 3G auctions, and Mukherjee does not explain where the extra money is going to come from.

At bottom, this government will enter its third year in power without

a BHAG (big, hairy, audacious goal) beyond the rather weary "sustainable and inclusive growth". Will populism lift India into a high-income, skilled-labour bracket? We will need all the enterprise, innovation and success we can marshal. Noting that 70 per cent of Indians will be of working age by 2025, Mukherjee announced a sharp 24 per cent rise in outlays on education to ₹52,057 crore, and a 40 per cent rise in expenditure on the Sarva Shiksha Abhiyan programme, which seeks to universalise primary education, to ₹21,000 crore. The UNDP's Human Development Report says Indians enjoyed only 4.4 mean years of schooling in 2010, lower again than our three immediate neighbours. The 2010 Annual Status of Education Report, or ASER, by Pratham, an NGO, makes for depressing reading. Although 96.5 per cent of children in the 6-14 age group were enrolled in school, it says, only 53.4 per cent of fifth-grade children could read a second-grade level text. The Economic Survey quotes ASER 2010 as saying that the proportion of first-grade children who could recognize numbers from 1 to 9 declined from 69.3 per cent in 2009 to 65.8 per cent in 2010. The proportion of third-grade children who could solve two-digit subtraction problems dropped from 39 per cent in 2009 to 36.5 per cent in 2010.

Do not be in any doubt — the mountain is high, and the climb is steep. Our ascent is perilous. It has not got easier. ◆

More commentary at http://bit.ly/pranabthree and http://bit.ly/indiabudget2.

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Tumult on D-Street

The markets cheer the budget, but macroeconomic concerns could still affect sentiment. BY RAJIV BHUVA

It took just under three hours of trading on budget day for the Sensex to vault almost 600 points. The bulls, on the run this year, took heart from Finance Minister Pranab Mukherjee's Budget and stocks across the board initially rallied.

Mukherjee's stated commitment to fiscal discipline cheered the markets. There were lingering concerns on the Street that the government might struggle to rein in the fiscal deficit, given its commitment to various social sector schemes. In the next financial year, traders fretted, the government did not have the cushion of additional non-tax revenues like the 3G spectrum auction of the past year. But Mukherjee took the credit for trimming the fiscal deficit to 5.1 per cent of the GDP for 2010-11 and setting a lower fiscal deficit target of 4.6 per cent for 2011-12, which was the biggest reason for the optimism on Dalal Street.

Mukherjee had more surprises in store for the bulls. SEBI-registered mutual funds were given the nod to accept subscriptions from foreign investors who met the Know Your Client requirements for equity schemes. Currently, only FIIs and sub-accounts registered with the SEBI are allowed to invest in mutual fund schemes. "This will lead to an increase in capital inflows," asserts Motilal Oswal, Chairman and Managing Director, Motilal Oswal Financial Services. The government also enhanced the FII limit for investment in corporate bonds. Says Navneet Munot, Chief Investment Officer, SBI Mutual Fund: "It's a step towards liberalising the capital account."

The government's decision to raise the income tax exemption limits and persist with the stimulus measures saw the FMCG and auto stocks surging in the initial hours of trading. The emphasis on disinvestment also enthused the markets. Mukherjee has set a target of ₹40,000 crore for 2011-12, the same as in this financial year. "This is a bold move," says Ashvin Parekh, National Leader, Global Financial Services, Ernst & Young.

However, the early cheer on the Street dissipated somewhat as the markets read the fine print. The Sensex shed all its initial gains to end flat on budget day. On fiscal deficit, analysts are not convinced the government can walk the talk. While the revenue side Budget estimates for 2011-12 seem to be in place, subsidy and expenditure estimates appear to have been somewhat understated, believes Amar Ambani, Head of Research (India Private Clients), India Infoline. "It will be tough to achieve a 4.6 per cent fiscal deficit figure unless non-tax revenues like disinvestment surpass budgeted figures and an amnesty scheme to bring black money back is introduced."

On subsidies, the government has budgeted for a lower fuel subsidy of ₹23,000 crore, compared to ₹38,400 crore in 2010-11, which again seems unrealistic, according to traders. "This seems to be too optimistic given current high oil prices," says Ramanathan K., CIO (Single Manager Investments), ING Investment Management India."

The budget, say brokers, is unlikely to have a big impact on market sentiment in the medium term given the macroeconomic headwinds. Inflation remains a bugbear. Historically, too, the budget has had a limited impact on the markets. ◆

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10 Budgets That Changed India

All budgets are important, but some budgets are more important than others. Business Today chooses ten that have had the most impact on the nation's economy. BY PUJA MEHRA

Business Today commissioned KPMG to study all the 79 budgets various finance ministers have presented since Independence (Pranab Mukherjee's Budget on February 28 this year was the 80th) KPMG Executive Director Prateek Jain and Director Nabin Ballodia, aided by Abhinav Srivastava, Sumit Aggarwal and Rajeev Dewan went through every speech and made extracts, based on which *Business Today* made its choices.

1947: Independent India's First Budget

WHODUNIT
R.K. SHANMUKHAM CHETTY
India's first finance minister

PRESENTED
November 26, 1947

The Budget Decision: Well, the decision to present a budget itself, since it covered just 7-1/2 months, from August 15, 1947, to March 31, 1948.

Why he did it: With the Partition of India and the emergence of two independent governments, the Budget for 1947-48 passed by the Legislature the previous March ceased to be operative. New Delhi could have authorised the expendi-

ture necessary for the rest of the financial year, but it was felt that the newly freed country would like a budget to be presented at the earliest.

Did you know: The Budget Estimate for total revenues was ₹171.15 crore. Of this, notably, ₹15.9 crore was to come from the Posts and Telegraphs Department. The total expenditure for the year was estimated at ₹197.39 crore, of which the defence budget was ₹92.74 crore.

A large burden was thrown on this budget by the unavoidable expenditure on rehabilitating refugees of the Partition and the payment of subsidies for food grains in a year of food crisis. "If these special factors are taken into account it will be seen that we have not been living beyond our means or heading towards bankruptcy," Chetty had said in Parliament to explain the estimated fiscal deficit of ₹24.59 crore. The only tax proposal in the budget was an increase in the export duty of three per cent on cotton cloth and yarn by an additional amount of four annas per square yard on cotton cloth and six annas a pound on cotton yarn.

FM SPEAK

"The only disturbing features in the position are the persistence of inflationary trends and the unsatisfactory food position"

1951: The first Budget of the Republic of India

WHODUNIT
JOHN MATHAI
Finance minister in the Congress government
PRESENTED
February 28, 1950

The Budget Decision: This budget laid down the roadmap for the creation of the Planning Commission. The Commission was entrusted with the responsibility of formulating phased plans for effective and balanced use of resources.

Why he did it: High inflation, increased cost of capital, low level of savings and thus low level of investment and production had marked the years following Independence. The Commission was to be instrumental in making assessments of available resources and identifying areas requiring greater attention.

How this changed India: A large part of the blame or the credit — whatever way it is looked at — for the Indian growth model goes to the Planning Commission.

Did you know: Convention was broken in this budget: A White Paper containing practically all the material set out in a 'normal' budget speech was presented along with the Explanatory Memorandum. The speech thus was more informal on the matters covered by the budget. This budget also reduced the maximum rate of income tax from five annas per rupee, or 30 per cent, to four annas or 25 per cent. Incomes above ₹1.21 lakh attracted a super-tax rate of 8.5 annas per rupee. The maximum rate of personal taxation was 12.5 annas or about 78 per cent.

FM SPEAK

"Considerable assistance in the way of capital from foreign countries must hereafter be looked for... We should consider providing reasonable conditions of security and fair treatment for those who are willing to take the risk of investing their money in this country."

1957: The 'Krishnamachari-Kaldor' Budget

WHODUNIT
TIRUVELLORE THATTAI KRISHNAMACHARI
Minister of Finance in the Congress Government

PRESENTED
May 15, 1957

The Budget Decisions: Put severe restrictions on imports through an import licensing system; withdrew budgetary allocation for non-core projects, set up Export Risk Insurance Corp to protect exporters against payment risks. Brought in wealth tax, a tax on expenditure and a tax on railway passenger fee. Raised peak excise to 400 per cent. First attempt to distinguish between active income (salaries or business) and passive income (interest or rent). Raised income tax rates.

Why he did it: To ease the pressure on the balance of payments and foreign exchange reserves caused by the high imports of food grains and industrial goods effected to check high inflation.

How this changed India: The import curbs and high tax rates made things worse. Raising external debt became increasingly difficult.

Did you know: Krishnamachari, or TTK, had taken his taxation decisions on the advice of Hungarian economist Nicholas Kaldor. TTK also played a big role in setting up of Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Unit Trust of India, Damodar Valley Corporation and Neyveli Lignite projects.

1968: People-sensitive Budget

WHODUNIT
MORARJI RANCHHODJI DESAI
Deputy Prime Minister and Minister of Finance in the Congress Government

PRESENTED
February 29, 1968

FM SPEAK

"... there is a gap in the Centre's Budget of ₹315 crore... I propose to engage myself essentially in a minor operation in the nature of plastic surgery...in order to make the tax-system more efficient and attractive"

The Budget Decision: Ended the requirement of stamping and assessment by the Excise Department authorities of goods right at the factory gate and introduced the system of self-assessment by all big and small manufacturers, a system still in use. Today, except for some goods such as cigarettes and alcoholic preparations most products are on the self-removal mode for the levy of excise duty.

Why he did it: To reduce administrative burden on the Excise Department and curb discretionary powers with its field officers.

How this changed India: Self-removal of goods was a major procedure relaxation that went a long way in boosting manufacturing. Administrative convenience in removal of goods made the process less complicated and tedious.

Did you know: Morarji Desai is the only finance minister to have presented the budget on his birthday, February 29, twice— in 1964 and 1968. Altogether, he presented ten budgets, the most by a Union finance minister. In this particular budget, where both a husband and wife were income tax payers he withdrew the "spouse allowance" for, as he said in his budget speech: "it would be improper for any outsider to decide as to who is dependent on whom... to eliminate this unintended strain on the relationship of marriage".

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1973: The Black Budget

The Budget Decision: Provided ₹56 crore for the nationalisation of the general insurance companies, Indian Copper Corp and coal mines. This was a huge sum: the estimate for the budget deficit for 1973-74 was ₹550 crore.

Why he did it: It was considered absolutely necessary to maintain uninterrupted supply of coal in line with the growing demand for coal in various industries like power, cement and steel at the time. It was also believed that the interest of mine workers would be best served in a government-run set-up.

How this changed India: It is argued that nationalisation of coal mines had an adverse impact on coal production in the long run. The coal assets were bundled together under a single government-owned entity with no scope for market competition. There was little incentive for deployment of efficient production techniques and introduction of new technologies. India has been a net importer of coal over the past 40 years.

Did you know: Chavan, who had been chief minister of Maharashtra, increased tax rates on cigarettes in a couple of his budgets. In one such speech he said: "There comes perhaps a time in the life of every smoker when the concern for his own health begins to outweigh the loyalty to an old and faithful companion. For those who cannot shake off their consuming passion, there is at least the consolation that the more taxes they pay, the more they serve the common cause."

Agreeing to one of the recommendations of a committee on taxation of agricultural income, Chavan also introduced the clause that requires taxpayers to factor in their agricultural income to decide the rate at which to pay income tax.

WHODUNIT
YASHWANTRAO B. CHAVAN
Minister of Finance in the Congress Government

PRESENTED
February 28, 1973

FM SPEAK

"In the present inflationary situation which the economy faces, the size of the deficit must be kept to a low level."

1986: The Carrot & Stick Budget

WHODUNIT
V.P. SINGH
Minister of Finance in the Congress Government

PRESENTED
February 28, 1986

FM SPEAK

"We have adopted the goal of 'Health for All" by the year 2000 A.D. This is sought to be achieved mainly by expansion of primary health care programmes."

The Budget Decision: Introduced MODVAT credit. This allowed credit/ set-off of duty paid on raw materials against the duty on final products.

Why he did it: To reduce the cascading effect of taxes on the final price of goods.

How this changed India: This was a modest beginning at major indirect tax reform that will culminate in the shift to the Goods & Services Tax regime.

With the introduction of Cenvat Credit Rules in 2004, cross credit between service tax and excise was allowed for the first time, reducing effective tax costs and boosting industry.

Did you know: This budget also proposed the setting up of a small industries development bank, an accident insurance scheme for municipal sweepers and railway porters, bank loans with a subsidy for rickshaw pullers, cobblers and such self-employed people. It also proposed the setting up of Unit Trust of India's mutual fund and Mahanagar Telephone Nigam Ltd. for Delhi and Mumbai.

Singh oversaw the beginning of the dismantling of the license raj. He also gave teeth to the Enforcement Directorate of the Finance Ministry and the mandate to sniff out tax evaders. High-profile raids on suspected evaders — including Dhirubhai Ambani — forced Rajiv Gandhi to divest Singh of the portfolio.

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1987: The Gandhi Budget

WHODUNIT
RAJIV GANDHI
Prime Minister in the Congress government

PRESENTED
February 28, 1987

The Budget Decision: Introduced provisions related to minimum corporate tax, better known today as MAT or Minimum Alternate Tax.

Why he did it: It was brought in with the primary objective of bringing into the tax net highly profitable companies that were legally managing to avoid paying income tax.

How this changed India: The budget estimates for collections of this tax were modest (₹75 crore) but it has since become a major source of revenue, though the figures are no longer revealed.

Did you know: The idea may have been inspired by the United States. In the 1960s, the US government, desperate for more finances due to the Vietnam war, decided to target 155 individuals, all with incomes above $200,000, who were avoiding paying federal income taxes by successfully using all the tax loopholes available. It devised a formula that placed a 50 per cent ceiling on the amount of an individual's income that could enjoy tax-exempt status. Treasury Secretary Joseph Barr moved the proposals that led to the creation of the alternate minimum tax, or AMT.

Cigarettes evoked a light moment in Rajiv Gandhi's only budget speech. "In looking for more revenue, I have to fall back on the ever dependable and reliable friend of Finance Ministers and the certified enemy of Health Ministers." He switched to the current system of basing the excise rate on the length of a cigarette rather than its printed price.

1991: The Epochal Budget

The Budget Decisions: Overhauled the import-export policy, slashed import licensing and went for vigorous export promotion and optimal import compression to expose Indian industry to competition from abroad. Began rationalisation of duty structures by pruning the peak customs duty from 220 per cent to 150 per cent.

Why he did it: The balance of payments was precarious and any further postponement of long overdue steps would have been disastrous.

How this changed India: India is today the second fastest growing economy in the world.

Did you know: Singh introduced service tax in the 1994 Budget to tap into the fastest growing sector of the economy then. Service tax today fetches ₹58,000 crore against ₹400 crore in 1994.

Singh, normally a reserved person, is known to garnish his budget speeches with humour. In those days, he was accused by the Left of bowing to pressure from the World Bank. For a particular budget proposal he said dead-pan: "I am doing this under pressure from WB and WB is not World Bank but West Bengal". Announcing benefits for Mumbai, where he had stayed earlier as Governor of the Reserve Bank of India, he said: "Voting Congress is not only good politics, but good economics". The Congress had just won the civic elections in Mumbai. On the north-eastern states, he said: "This is in gratitude to the East for providing a home to a homeless Finance Minister". Even today Singh is a Rajya Sabha member from Assam.

Delivering his speech for the 1992-93 Budget, Singh said, "It is said that child is the father of the man, but some of our taxpayers have converted children into tax shelters for their fathers."

WHODUNIT
MANMOHAN SINGH
Finance Minister in the Narasimha Rao government

PRESENTED
24th July, 1991

FM SPEAK

"The room for manoeuvre... does not exist anymore. Any further postponement of macroeconomic adjustment... would mean that the balance of payments situation, now exceedingly difficult, would become unmanageable."

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1997: The Dream Budget

WHODUNIT
PALANIAPPAN CHIDAMBARAM
Finance Minister in the United Front Government

PRESENTED
February 28, 1997

FM SPEAK

"I hold the view that an MBA – even if he is from Harvard – is not a patch on a scientist"

The Budget Decisions: Made tax rates moderate for individuals as well as companies. Allowed companies to adjust MAT paid in earlier years against tax liability in subsequent years. Launched the Voluntary Disclosure of Income Scheme or VDIS, to bring out black money. Phased out ad hoc treasury bills used for financing the budget deficit.

Why he did it: A little over one per cent of the population had been for income tax so far. Budget 1997 aimed to widen the tax base.

How this changed India: India had a peak income tax rate in the late 1960s and early 1970s of 97.5 per cent. The moderation in rates improved overall compliance as those who used to find rates prohibitive earlier began to pay up instead of hiding their incomes. Since 1997-98, personal income tax collections have gone up from ₹18,700 crore to ₹100,100 crore during April 2010–January 2011. The VDIS garnered about ₹10,000 crore. Higher disposable income in the hands of taxpayers helped generate demand. The incremental tax revenues were leveraged into developmental public expenditure on social welfare and the infrastructure sector.

Did you know: American economist Arthur Laffer studied the inverse relationship between tax rates and tax collections. Economists call the trade-off the Laffer Curve. Between 1979 and 2002, more than 40 countries, including Britain, France and Germany, cut their top rates of personal income tax and gained revenue in bargain.

In his budget speech, Chidambaram quoted not just his favourite poets Saint Tiruvalluvar and Rabindranath Tagore, but also Chinese leader Deng Xiao Peng: "From our experience of these last few years, it is entirely possible for economic development to reach a new stage every few years. Development is the only hard truth." Chidambaram is an MBA from Harvard University.

2000: The Millennium Budget

WHODUNIT
YASHWANT SINHA
Finance Minister in the NDA Govt

PRESENTED
February 29, 2000

FM SPEAK

"In earlier millennia, India led the world on knowledge. History is repeating itself. Companies unknown 5 years ago have become world leaders."

The Budget Decision: Phase out of Manmohan Singh's incentive for software exporters. In Budget 1991, Singh had made income from software exports tax-free for three years, and then extended the tax holiday to perpetuity in Budget 1995.

Why he did it: To improve the ratio of taxes to GDP or gross domestic product.

How this changed India: Singh had intended to promote India as a major software development centre in the world. The introduction of this tax holiday to software export sector was followed by exceptional growth in Indian IT industry. At the same time, no industry can remain dependent on tax incentives in perpetuity. So while the credit for India emerging a major global software hub goes to Singh, Sinha, perhaps contributed a great deal to infusing confidence in it.

Did you know: In Budget 2001-02, Sinha introduced Transfer Pricing Regulations, which require transactions between associated enterprises to be at arm's length. The regulation played a big role in the prevention of erosion of the tax base in India. ◆

ADDITIONAL REPORTING BY MANU KAUSHIK

GEORG1A

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According to the 2010 Global Corruption Barometer by Transparency International, 78% of Georgians think that corruption has decreased over the last 3 years – the best result across the 86 countries surveyed. According to the TI survey, only 3% of Georgians who had contact with various public services reported paying a bribe in the past 12 months. This is a better figure than the EU average and places Georgia in the pool of countries whose citizens report the fewest bribes in the world. The survey also shows that 77% of Georgians believe that Government action has been effective in the fight against corruption, making Georgia's result the 2nd highest globally. These achievements are even more important when set against the global perception that corruption has increased in the past 3 years and, as noted by TI 'one out of four worldwide has paid a bribe in the past year.' Another recent survey conducted by the International Republican Institute, Baltic Surveys and the Gallup Organization, points out that only 0.4 per cent of the population of Georgia has paid a bribe to get a service or a decision. To find out how to become part of Georgia's big success story please visit georgia.gov.ge

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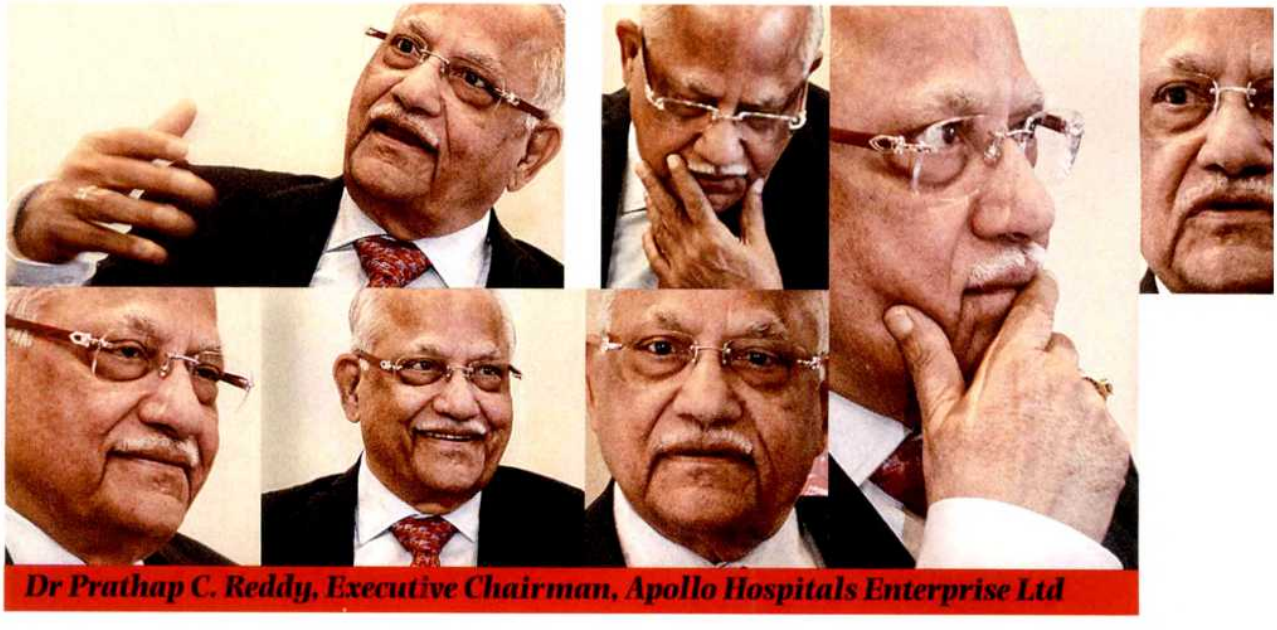
Wealthy India, Unhealthy Indians

Healthcare needs have not been adequately addressed, says Dr Prathap C. Reddy of Apollo Hospitals. BY N. MADHAVAN



PHOTOGRAPHS BY H.K. RAJASEKHAR

Dr Prathap C. Reddy, Executive Chairman, Apollo Hospitals Enterprise Ltd

Billion Hearts Beating — The heart of India is in our hands." That is the banner greeting visitors at Apollo Hospitals Enterprise Ltd, Chennai. Inside the hospital are hundreds of small, heart-shaped posters giving the seven common causes of heart attacks. The campaign is also the screensaver on Executive Chairman Dr Prathap C. Reddy's desktop. "By 2015, India will be home to two-thirds of the world's heart diseases and 62.5 million people will be affected," he says. "Billion Hearts Beating is our corporate social responsibility campaign to create awareness on what people should do to avoid a heart condition," adds Dr Reddy, while settling down to watch Finance Minister Pranab Mukherjee's speech in his compact corner office, a large colourful laughing Buddha giving him company. In a while, he is joined by daughters Preetha, Managing Director of the hospital chain, and Suneeta, Executive Director, Finance, and some senior officials.

The first 30 minutes of the speech are heard in rapt attention with almost everyone studiously taking notes. The emphasis on agriculture and measures to tackle food inflation are steps in the right direction, acknowledges Dr Reddy. The measure to ensure greater transparency in delivery of subsidies through direct transfer is also welcomed.

But soon, there is a sense of unease. Mukherjee is 45 minutes into his speech, but there is little mention of the healthcare sector, except a 20 per cent increase in allocation. "The health minister is there. Hope he is expecting something," remarks Dr Reddy, hiding his frustration. Expectations rise as the fertiliser industry is conferred infrastructure status. The healthcare sector has been seeking similar status for long. As the FM moves onto tax proposals, the hope gives way to disappointment. "It is time the government recognises the challenges faced by the country on the healthcare front. We can't have a wealthy India with unhealthy people," says Dr Reddy. "There is a huge demand-supply gap. We have one bed for 1,000 people, compared to western countries where the ratio is 1:250. There is a desperate need to add 1 lakh beds every year for the next 10 years to meet the surging demand and this calls for an annual investment of ₹30,000 crore," he explains. Infrastructure status, the industry argues, is necessary to raise such large funds.

"The government has neither realised the serious healthcare crisis in the country, nor the potential the industry offers"

"In four years, the total number of cardiac cases in India will go up to 62.6 million which our healthcare infrastructure cannot cope with. Today, we have 0.7 million doctors against the requirement of 1.5 million. We need to triple the headcount of nurses and quadruple the number of paramedics," says Dr Reddy.

A World Health Organization study has estimated that India could lose $237 billion in national income on account of chronic non-communicable diseases such as diabetes, hypertension and heart disease in the next decade. "To meet these challenges, we need many times more than a mere 20 per cent increase in allocation. Other BRIC countries spend two to three per cent of their GDP on health care," Dr Reddy argues.

The government has neither realised the serious healthcare crisis in the country, nor the potential the industry offers, he says, adding, "India's healthcare sector has the potential to add two to three per cent to the GDP," he adds.

Disappointment gives way to despair as the FM announces imposition of service tax on all facilities, including health check-ups and diagnostic services in private hospitals that have more than 25 beds and are centrally air-conditioned. "Air conditioning is not a luxury in a hospital. It is for controlling infection. The message this measure will send is build hospitals without air conditioning," says Dr Reddy. "Hospitals will now try putting up individual room ACs but that is not an energy-efficient move," chips in Preetha.

"At a time when we are educating people to undergo preventive healthcare tests and identify problems early, such taxes defeat their very purpose," he says. Dr Reddy's disappointment is understandable. One of the most important aspects of the 'Billion Heart Beating' campaign is tests that identify heart ailments early. This is because one-fourth of cardiac patients in India are in the below-40-year bracket. ◆

No Effort to Curb Black Money

An opportunity has been wasted in this please-all Budget, says Harsh Goenka of RPG Enterprises. BY SUMAN LAYAK

PHOTOGRAPHS BY NISHIKANT GAMRE

Harsh Vardhan Goenka, Chairman, RPG Enterprises

Only one crore?" asks Harsh Vardhan Goenka. It is the first reaction of the Chairman of RPG Enterprises as he listens to Pranab Mukherjee's speech. He has just heard the Finance Minister announce a Rs 1 crore award in the memory of Rabindranath Tagore, whose 150th birth anniversary fell last May. The award will be given for promoting the values of Universal Brotherhood, so dear to the late poet's heart.

"I was expecting the Finance Minister to come out with some concrete steps against black money," Goenka adds after hearing Mukherjee's proposals on curbing illicit wealth. "This was a good opportunity. The atmosphere was right to offer a scheme to bring black money out and into the system."

The venue is the boardroom at RPG House on Mumbai's busy Annie Besant Road where top executives of different RPG companies have gathered to watch the FM's speech together. Large paintings of top artists like Jehangir Sabavala and Laxman Shreshtha hang on the walls. The executives include group Vice President Suresh Mathew; Goenka's son Anant, now Deputy Managing Director of CEAT Ltd; Paras Chowdhary, Managing Director of CEAT Ltd; Sunil Sapre, Chief Financial Officer of CEAT Ltd; A.S. Chouhan, Chief of RPG's speciality sector (Raychem, Harrisons Malayalam and RPG Life Sciences); Sachin Raole, CFO of RPG Life Sciences; and Vardhan Dharkar, CFO of KEC International.

For the first half hour as Mukherjee speaks, there are few comments from those watching. Someone notices that the ITC Ltd scrip is going up and chuckles. ITC usually goes down on every Budget day as proposals for higher excise on tobacco are announced. Harsh Goenka joins the group at around 11.40 a.m.

Coffee and biscuits are served. Shortly after noon, Chowdhary notices that the graph of the rupee's value on the TV screen is falling. "Why?" wonders Goenka aloud.

"I was expecting the Finance Minister to come out with some concrete steps against black money. This was a good opportunity. The atmosphere was right to offer a scheme to bring black money out and into the system"

"Perhaps because there were expectations on foreign direct investment and nothing has come through," suggests Chowdhary.

Soon after, the Budget announcement of the lowering of the surcharge on corporate tax from 7.5 per cent to five per cent sets the room abuzz. Does CEAT stand to benefit? Sapre, however, points out that another proposal — the increase in the minimum alternate tax rate from 18 per cent to 18.5 per cent — might well undo any benefit from the surcharge reduction, at least for CEAT.

The reference to people wanting to import works of art and antiquity for exhibition in the speech immediately perks up Goenka — ever the connoisseur.

As the speech draws to a close, others note that the Sensex is doing well. Anant Goenka feels that the encouraging fiscal deficit numbers have kept the market buoyant. The consensus in the boardroom is that Mukherjee has done a good job. As Chouhan says Mukherjee has rightly tried to tackle inflation — which was primarily supply side inflation — by improving distribution and cold chains. The announcements that show the government will stick to a timetable for introducing both the Direct Taxes Code and the Goods and Services Tax are welcomed.

But Harsh Goenka feels Mukherjee could have been more ambitious on disinvestment. The Budget announced a target of ₹40,000 crore. Goenka feels at least ₹1,00,000 crore could have been raised in the coming financial year through disinvestment of government companies even while retaining control over them. "My expectations were fairly low," Goenka adds. "The Finance Minister has pleasantly surprised me by not going in for populist measures. He has balanced the needs of the corporate sector and consumers." He also says he had expected some announcements relating to limited liability partnerships, but there had been none.

Goenka sums up: "Usually a budget evokes mixed reactions. Some people at every gathering are happy and some are unhappy. But today no one seems unhappy." ◆

What They Thought of the Budget

"Peanuts to the Nation"

Bihar Finance Minister Sushil Kumar Modi admires Pranab-da but cannot help criticising some of his budget proposals. BY ANAND ADHIKARI

A constant drone emanates from the first floor of the two-storeyed Vidhan Bhawan on Patna's Sachivalaya Road, where the budget session of the Bihar assembly is underway. It's more or less a full house even though budget presentation is long over. The calming influence that Nitish Kumar's rule has had on life in the state is in evidence in the assembly too, where his JD(U)-BJP government has an overwhelming majority in the 243-member House.

Finance Minister Sushil Kumar Modi of the BJP, who is also the Deputy Chief Minister of the state by virtue of the power-sharing agreement between the BJP and JD(U), leaves the House around noon, and heads to his chamber on the second floor to catch Finance Minister Pranab Mukherjee presenting his sixth Union Budget in Parliament. Modi had presented his seventh budget four days earlier.

"I'm a fan of Pranab-da," Modi announces to this writer with a smile as he enters the chamber. He says he especially likes his "integrity and intellect". He talks even as he surfs channels on the ancient TV in his office to get to the budget telecast. "Pranab-da is a sharp and intelligent politician."

Once in his official chair, the political Modi — the National Democratic Alliance, of which BJP is a part, is the main opposition in Parliament — cuts the pleasantries short. "Not much is being done to contain inflation and corruption and generate employment," he says while looking for useful budget comments in scraps of paper slipped to him by his staff.

"There is just marginal relief to the common man from income tax," the 59-year-old politician says, visibly struggling to find more loopholes. He takes a timeout to check his iPad and the analyses on various channels before firming up his own views. "There is nothing concrete in the budget to tackle the menace of corruption," he says tentatively. In between his comments, he turns to his BlackBerry to check mails, and attends to colleagues who drop by every now and then.

> *"We were expecting relief in the Budget for our drought and flood-affected areas.... They (the UPA government) have offered grants to educational institutions in Tamil Nadu, Kerala and West Bengal which are going to elections soon."*

"Bihar has been ignored once again in the budget," a visitor seemingly taunts Modi before leaving the chamber. Modi refuses to take the bait and instead explains: "We were expecting relief in the budget for our drought and flood-affected areas." But the comment does touch a raw nerve — this third-most populous state has a running feud with the Congress-led UPA government. "They have offered grants to educational institutions in Tamil Nadu, Kerala and West Bengal which are going to elections soon," points out Modi.

Ask this science graduate about the art of making a good budget that safeguards the interest of all stakeholders and pat comes the reply: "You require a little bit of common sense and a lot of sincerity."

Surprisingly, Modi lauds Mukherjee for proposing direct cash transfers to the targeted beneficiaries of kerosene, LPG and fertiliser subsidies. "We have been suggesting direct

cash transfers for a long time," he says. In fact, Bihar successfully implemented the Mukhyamantri Balika Cycle Yojana way back in 2006 by giving ₹2,000 directly to school students to buy bicycles.

When you goad him for his comments on the proposals on agriculture, Modi says the interest rate subsidy should be extended to fisheries and poultry and dairy units. "These sectors end up paying a 12 per cent interest rate," says Modi. He attributes the ability to control food inflation to the delay in banning exports of items like onions and milk powder.

By now, the budget papers have arrived in Modi's chamber and he starts to furiously flip through them. "The budget offers peanuts to the nation," he sums up after a few minutes, the tone now decidedly more aggressive. He singles out the centrally-sponsored schemes for criticism. "There are over 300 of them. Our country needs only half a dozen in areas like health care, below poverty line and marginal families, etc," he says.

In fact, his biggest worry as a state finance minister is about coughing up the state's contribution to schemes which ranges from 15 to 25 per cent of their total outlay. "You have to have money in the coffers to take advantage of central schemes," he says.

Modi, who has written two books as well (he calls them booklets) *Kya Bihar Bhi Assam Banega* and another one on the subject of job reservation, says politics is a full-time job for him. "There is no time to pursue other interests," says the politician who regularly reads 25 newspapers, including the pink dailies.

"The biggest worry as a state finance minister is coughing up the state's contribution, which ranges from 15 to 25 per cent of the outlay of schemes. You have to have money in the coffers to take advantage of central schemes."

That explains a lot about the man who has actually written all his seven budget speeches. "A state budget is not as complicated as a central budget," says a modest Modi, as he finishes lunch and gets ready to leave for the House to attend his own budget session which resumes at 2 p.m.◆

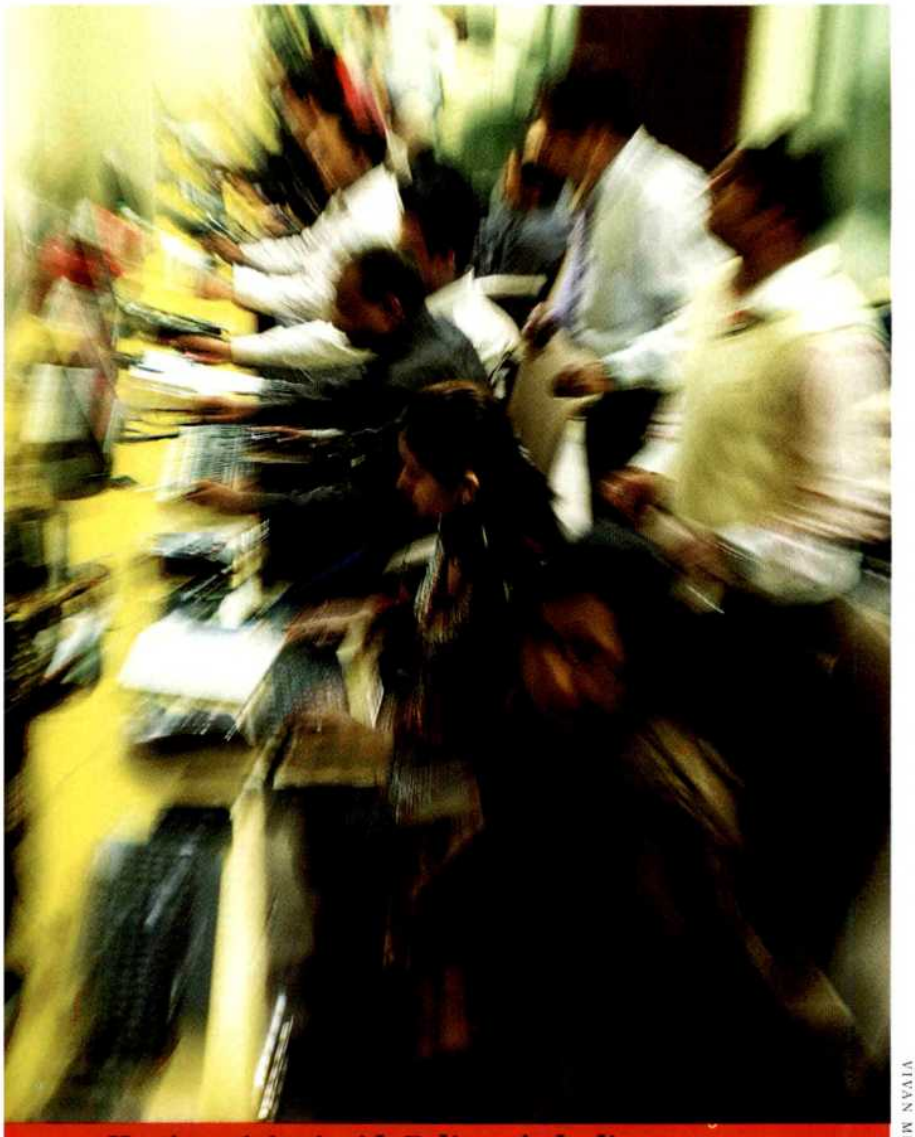
RACHIT GOSWAMI

Sushil Modi in his chamber at Vidhan Bhawan in Patna.

What They Thought of the Budget

Treading on Volatility

How a dealing room, where money is made or lost each time a share moves, responded. BY MANU KAUSHIK



VIVAN MEHRA

Hectic activity inside Religare's dealing room

It is close to 8.45 a.m. on Monday, February 28, 15 minutes before stock markets open for trading. The 24 feet by 8 feet dealing room of Religare Securities in New Delhi's central Connaught Place soon gets occupied by traders and investors waiting to make their money. The day is a once-in-a-year opportunity: Finance Minister Pranab Mukherjee will soon make his speech on the Union Budget 2011-12.

The overall mood is sombre given the high volatility in the stock markets over the last few trading sessions. Five minutes after the market opens, Chaya Arun, the Religare branch manager, steps into the dealing room to caution her six-member team about the market movements ahead in the day. "Budget days tend to be volatile. After touching 21,000 peak last year, there has been a continuous downward pressure on markets, which has dampened investor sentiments," she says. "While it looks difficult, especially after the non-event Railway Budget, we are hoping the Budget will lift spirits," she tells *BT*.

From one far corner of the room, Arun Kumar Gupta advises clients — taking turns at speaking into a phone and hollering across the room to day traders present — to buy into education and fertiliser sector stocks. His rationale: the govern-

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ment is fighting food inflation and will support the agriculture sector. This could come in the form of higher fertiliser subsidies. Also, education is likely to top government's agenda, he reasons. In early trades, he buys Rashtriya Chemicals and Fertilizers (at ₹82 apiece), Chambal Fertilisers (at ₹71.20) and Educomp Solutions (at ₹492).

Even as Gupta is bullish, another dealer, Kunal Nanda, is shorting, or betting a share price will fall — the State Bank of India, or SBI, stock. "Indices like Hang Seng, Nikkei and Strait Times have opened down; there's strong chance that our markets will slip into the red as well," he says, adding technical analysis showed the bank stock would slip further. At 9.46 a.m., with the Nifty at 5,404.6, up 101.05 points from opening, Nanda sells 1,000 units of SBI at ₹2,611 each. And, just in case the share price goes up, he puts a stop loss request at ₹2,630 — the trading platform will automatically buy back the stock when it touches that price.

The volatility of the past few days has the Religare risk management team cutting the trading limit of its clients on Budget day. The trading limit is the maximum leverage amount the brokerage is ready to offer its clients for buying stocks or derivatives. The limit is set daily based on market situation, value of securities and cash balance in the demat account of the client.

By 11 a.m., the brightly-lit room is bustling with day traders and a large number of orders are coming through on the phones. The loud conversations between dealers and traders soon turn into a hush as Mukherjee begins his Budget speech. A few minutes into the speech, the conversations are back but in subdued tones.

"The first big-ticket announcement is in infrastructure. The instant reaction is felt on infrastructure shares, which go up between one per cent and five per cent"

The first big-ticket announcement is in infrastructure, where the minister says he is increasing the budgetary allocations for 2011-12 to ₹2,14,000 crore, up 23.3 per cent from the current financial year. The instant reaction is felt on infrastructure shares, led by Larsen & Toubro, BHEL, GVK Power, Lanco Infratech and JP Associates, which go up between one and five per cent.

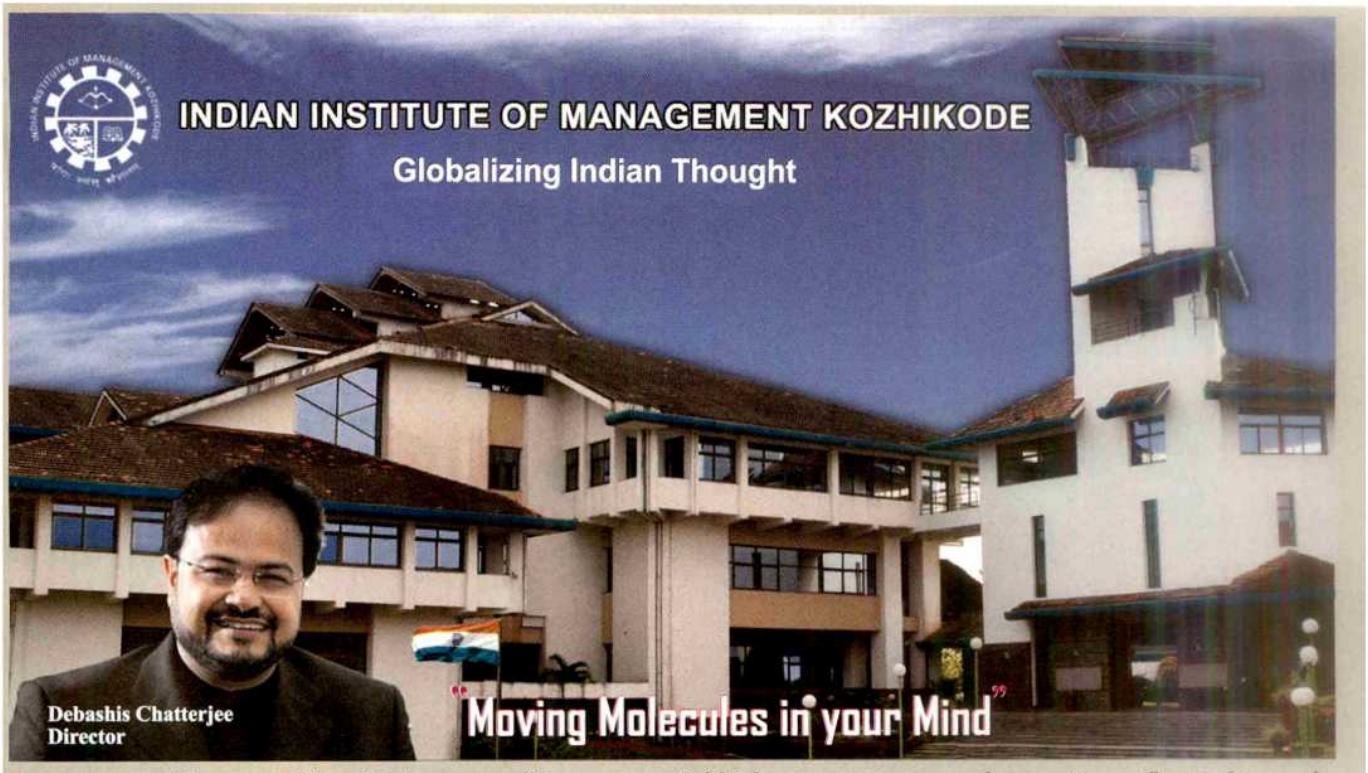
Nanda, who has just booked a loss of ₹19,000 on SBI, which has climbed to ₹2,630 and beyond, wastes no time and buys L&T shares at ₹1,565 and sells them in a matter of few minutes at a profit of ₹12 each share. Another dealer Amit Pratap Singh buys and sells 12,000 shares of GVK Power in less than half an hour, making a total profit of ₹8,400 — at 70 paisa each.

Some stocks like ITC also gain as there is no hike in excise duty on cigarettes, as expected by analysts. Gupta buys ITC at ₹156 for many of his clients and sells at ₹169 by the end of the day.

Towards the end of Mukherjee's speech, stock-specific movement slows as activity in Nifty futures and options gather momentum. Between 12.50 p.m. (the time Budget speech concludes) and 1.45 p.m., the Nifty climbs from 5321.7 to 5473.35, up 151.65 points. Almost all the Religare traders play in futures and options during this period. "While the Budget did not say much about the fertiliser and education sectors, the derivatives market gave enough opportunities for us to make money," says Gupta. ◆

"The mood is sombre given the high volatility in stock markets over the last few trading sessions"

MONEY SHARMA



Let me start with a story: Three leaders are walking across a field. The youngest among them notices a flag tied to a pole. He draws the attention of his two companions and says,'Look, how the flag moves'. The second leader pats the younger one on the back and says, 'My boy, can't you see it is not the flag that moves. It is the wind that moves'. The veteran leader who had been listening to the other two in silence softly says, 'If you have insight, you will see that it is neither the flag nor the wind that moves. It is the mind that moves'.

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What They Thought of the Budget

Big Town Blues

Small and medium enterprises in Kanpur had some humble hopes that were belied. BY TASLIMA KHAN

Standing (from L to R): Jagdish Arora of Krishna Synthetics, Manmohan Rajpal of Jay ESS Saddles, Rajesh Grover of Tupic Engineers and Pradeep Bhargawa of EMA India; Sitting (from L to R): Ramji Seth of Matador Foam and T.K. Kheterpal of TSS Overseas

PHOTOGRAPHS BY SAPTARSHI BISWAS

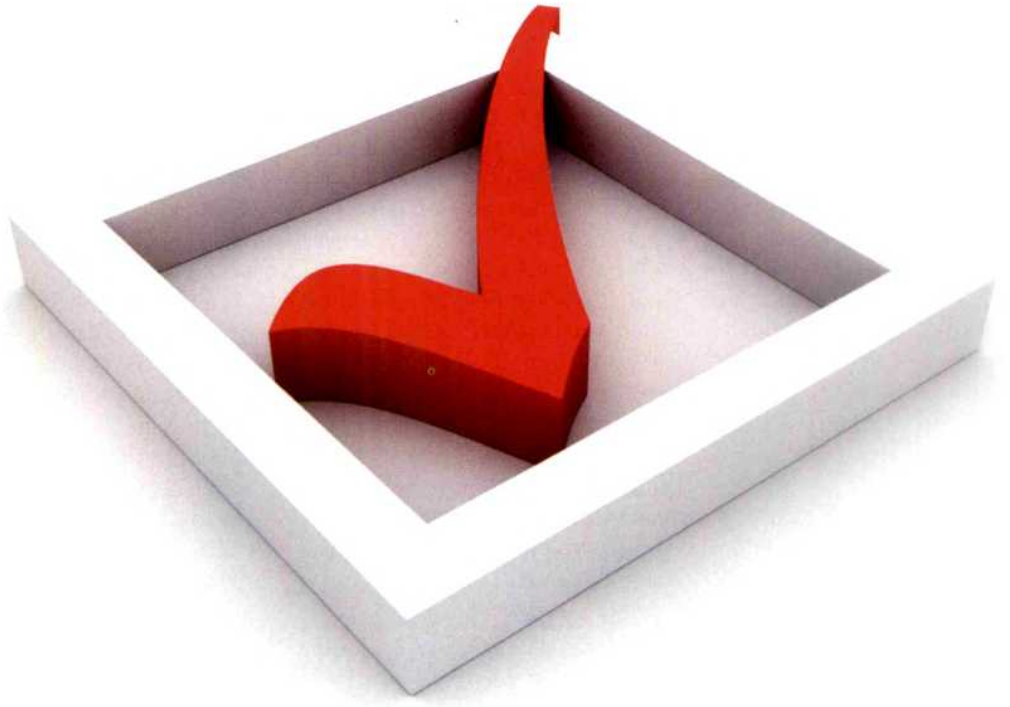
They are the big guns of Kanpur, the heart of Uttar Pradesh's industry. They also represent small and medium enterprises, or SMEs, entrenched in businesses that are synonymous with the city — tanneries, leather footwear and textiles.

Take Mukhtarul Ameen, Chairman and Managing Director of leather products major Superhouse, who has moved up from running a tannery to making finished footwear for global retail brands such as Mango, Zara and Icon. Or Anil Pandey, whose Amitech Industries switched to the manufacture of synthetics garments when cotton prices went out of control.

For entrepreneurs in Kanpur and millions of India's SMEs, February 28, 2011, was just another day of tackling inspectors and assessment officers, claiming refunds under value-added tax, or VAT, fighting power shortages — as also the threat posed by mighty China.

The mood among them was one of stoic resignation, and yet knowing that things are not going to change in a big way for them.

Finance Minister Pranab Mukherjee disappointed them just as they had expected him to: he mentioned micro and small enterprises only in passing, in para 40, to announce larger funding through the



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small industries bank.

Kanpur's SMEs had been looking for changes in some policies and tax laws, and a simpler way of getting rebates and reviving old schemes that had helped them.

But Mukherjee had not a word about extending the Textile Upgradation Fund or TUF. When it was announced in 1998, the TUF breathed life into a languishing industry by extending soft loans through banks.

Manoj Agarwal of Kanpur Plastipack says: "TUF was running very successfully and investments were picking up, but it was discontinued last year. The industry was eagerly waiting for a new TUF scheme."

For the SMEs here, the biggest battle is still with the inspector raj that India had sought to banish in the 1990s. Inspectors from a host of departments — labour, provident fund, pollution control, commercial taxes and income tax, among others — still plague them. "Think of setting up a unit here and you will have 31 inspectors after you. And even after all the inspections, they won't be able to put out the final report," says a leather goods maker requesting anonymity.

Kanpur's businessmen are not critical of everything the Centre does. For example, they admit that the National Skill Development Programme is helping them get skilled labour.

But when it comes to unskilled labour, another much-lauded programme of the United Progressive Alliance government is hurting. The Mahatma Gandhi National Rural Employment Guarantee Act or MGNREGA is changing the face of rural India, but villagers who used to flock to cities such as Kanpur for work are staying back home, assured of 100 days of work. The government has made things worse for SMEs by linking the MGNREGA wages to the consumer price index for farm labour.

"The Chinese enjoy a huge advantage because of the low cost of investments and huge factory sizes."

Pandey at Amitech says: "I am not getting labour even if I offer 365 days of employment and training at my cost with a stipend."

The entrepreneurs do not mind value added tax or VAT, but they do mind the way. Taj Alam, Managing Director of Kings International, says: "We get VAT refunds on purchase of raw materials and are entitled to a VAT refund every quarter. But at any given time, the refund for the last four quarters is blocked. You cannot use the money to pay your bills or run the business."

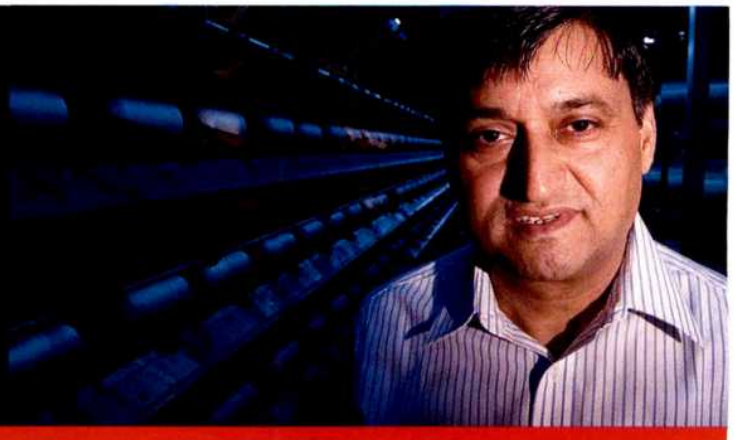
Mukherjee also chose to ignore a demand that the turnover floor for levying excise be raised to at least ₹5 crore from ₹1.5 crore at present. Navin Kumar Jain has a paper packaging unit, Siddhartha Packagers, with a turnover of ₹2 to 3 crore and has to pay excise on his products — which adds to the price. Most of his customers have limited means and do not want to pay extra. Jain cannot cut prices because input costs have doubled. "Where is the incentive to grow to a ₹100-crore firm?" he grumbles.

There is a still bigger threat on the horizon. For Kanpur's businesses, the new financial year means just one thing: competition from cheap Chinese and Vietnamese footwear.

The anti-dumping duties levied on footwear will be lifted from April. Ameen says: "The Chinese enjoy a huge cost advantage because of the low cost of investments and huge factory sizes."

Exporters like Ameen are gearing up for the battle ahead. As one exporter says, "I have learnt to get my work done and not to wait for policy announcements." ◆

"I am not getting labour even if I offer 365 days of employment and free training at my cost"



Anil Pandey, Amitech Industries

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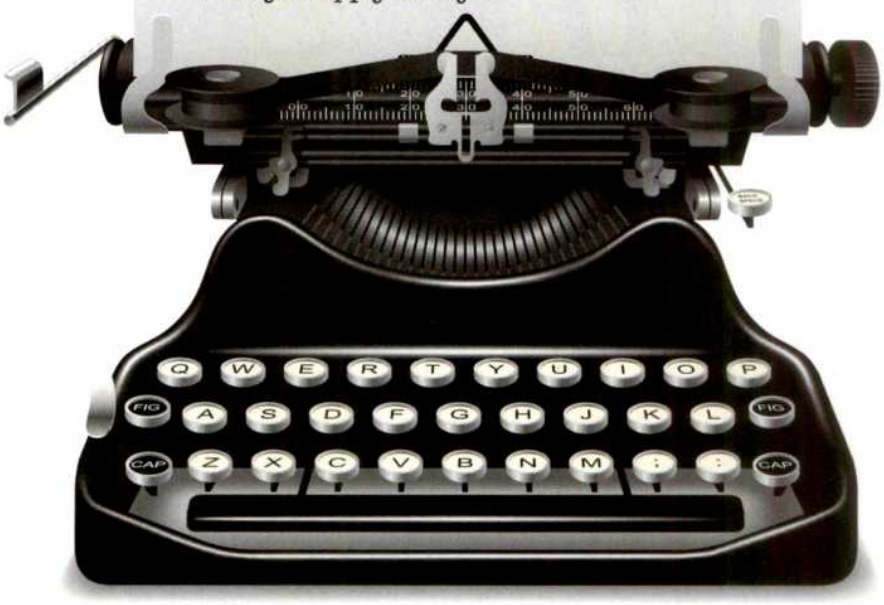

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One Last Chance

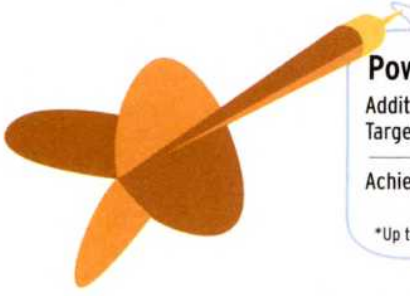
Crude Oil

Production Target	187 mt
Achieved	130* mt

*Up to October 2010

As India enters the last year of the Eleventh Five-Year Plan period, it is certain to miss quite a few key targets. Telecom is an exception. BY K.R. BALASUBRAMANYAM

The tribals living in the 171 hamlets of Attapadi, a hilly area receiving high rainfall in Palakkad district of Kerala, had never seriously hoped to see electricity in their huts. But, in February last year, they had a pleasant surprise when power started flowing into their homes. With every household lit up, Palakkad was declared India's first fully-electrified district. But the rest of rural India has a long way to go. The government's goal — Power for All by 2012 — will remain a slogan for a few more years to come.



Power

Addition Target	78,577 mw
Achieved	32,032* mw

*Up to December 2010

When the 11th Five-Year Plan began in 2007-08, the government set itself a target of adding 78,577 MW of power capacity by Plan-end, in March 2012. But, at the mid-term review chaired by Prime Minister Manmohan Singh last year, the Ministry of Power admitted that just 62,374 MW would at best be added. By December 2010, it turned out that only 32,032 MW had been added. The shortfall of more than 40 per cent cannot be made up in one year.

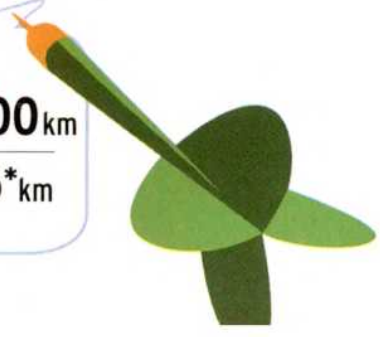
The only consolation is that even this "slow" addition is a remarkable achievement going by the government's record during the 10th Plan: just 21,220 MW was added in five years. This time the private sector has also put up an impressive performance by increasing its share in the capacities added from eight per cent in 2007-08 to 25 per cent to 2008-09 to 45 per cent in 2009-10, despite facing several hurdles.

In roads, Transport and Highways Minister Kamal Nath had set himself a target of adding 20 km of four-lane expressway a day, or a length of 35,000 km in five years. In actual achievement, it has been a leisurely walk: the average length added each day was 4.6 km in 2007-08, 6 km in 2008-09, 7.4 km in 2009-10 and 3.9 km in the first nine months of this financial year. Infrastructure

Highways

Addition Target	35,000 km
Achieved	7,736* km

*Up to December 2010



Coal Production

Annual Production Target	680mt
Achieved	319.8*mt

*April-November 2010

experts say the 20 km-a-day drive is possible only if projects being implemented add up to 15,000 km. As of now, projects under implementation add up to 3,000 km.

On the ports' front, the Plan's aim was to build 511 million tonne (mt) of new capacity at the 12 major ports of the country: there are six ports each on east and west coasts. The Prime Minister's review showed that actual capacity addition will fall 40 per cent short of the target, because of delays in awarding contracts for building new ports under the public private partnership, or PPP, model.

In contrast, private sector ports have done relatively well. GMR Group's Chief Financial Officer, A. Subba Rao, says there are very few new projects made available to private sector for development. The government, he says, must first identify projects at airports, seaports and highways and award them under the PPP mode.

Next, airports. The Civil Aviation Ministry had not set any number-specific targets, but vague goalposts such as making airport infrastructure world class, driving growth by facilitating affordable air services and flights to remote areas had been mentioned. None of these objectives has been realised. Many airports still get no flights, many others get very little traffic.

Says Rao of the GMR Group: "It is not enough if airports at Chennai and Kolkata are expanded, they need to be maintained as well." He says the government should award these two remaining metro airports to the private sector the same way as it did the Mumbai, Delhi, Bangalore, and Hyderabad airports, all of which have been modernised.

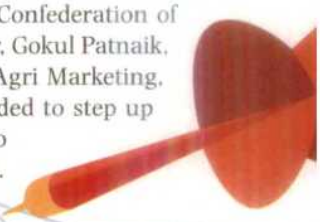
The coal mining sector has run into a wall of social and environmental issues. Coal demand was expected to hit 712 mt a year by March 2012, against a domestic production of 591 mt. So the Coal Ministry had set a production target of 680 mt by end-2012. But production remains below 550 mt.

In the crude oil sector, India wanted to pump 187 mt in all in five years by 2012. But the annual production hovers at 35 mt. By March next year, domestic crude production is likely to fall short of target by 30-35 mt.

Two sectors the UPA-II regime has been concerned about are agriculture and manufacturing, both key drivers of employment. It aimed for double-digit growth in manufacturing, but has not been able to sustain it in a consistent way. The global economic maelstrom of 2008-09 turned the sector's prospects upside down. With interest rates now climbing, it is near impossible for the sector to clock double-digit growth during the Plan period. The farm sector made a promising start with a growth of 4.9 per cent in the first year (2007-08). The next year, growth flattened to 1.6 per cent. In 2009-10, growth was a measly 0.4 per cent.

If the sector has to turn in four per cent growth over the Plan period, it has to grow at seven per cent this year and the next, which appears impossible, at least this year.

At a seminar hosted by the Confederation of Indian Industry in Delhi last year, Gokul Patnaik, Chairman of its Task Force on Agri Marketing, noted that the government needed to step up public investment in agriculture to get four per cent growth out of it. The most important area for investment in agriculture, he said, was related to providing water and ensuring its efficient use.

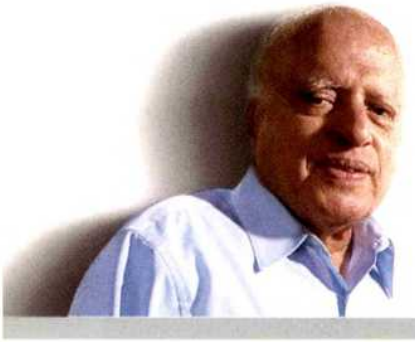


Major Ports

Capacity Addition Target	511mt
Achieved	297*mt

*Up to October 2010

Even as the UPA-II enters the last leg of the 11th Plan with a report card of red marks, one sector has actually beaten the most optimistic growth expectations. That is telecom. Call it the effect of mobile telephony. The sector effortlessly smashed the five-year target of reaching 600 million connections, two years ahead of schedule, reaching it by February 2010. With 17 million new connections every month, India prides itself today as home to the world's largest telecom network. ◆



Youth Key to Agri Transformation

I would like to highlight two issues relating to the future of our agriculture: Youth in farming; and providing the economy and power of scale to farm families operating small and marginal holdings.

Reaping the demographic dividend in agriculture: Technological upgrading as well as social engineering will be essential for improving the productivity, profitability and sustainability of small farms. We should launch a Youth for Agricultural Transformation Movement in rural India. Educated youth can provide demand-driven services such as farm health monitoring and enhancement, production and marketing of the biological software essential for sustainable agriculture, climate risk management, organisation of bio-parks, food parks, bio-villages, bio-industrial watersheds, and improved post-harvest technology.

Home science graduates can establish nutrition clinics to help end hidden hunger through appropriate local grains and vegetables. A combination of millet and moringa (drumstick) can provide all the needed macro- and micronutrients. Educated youth can establish Gyan Chaupals or village knowledge centres to provide the right information at the right time and spread knowledge about food safety, Codex Alimentarius standards and home and external markets.

For youth to be persuaded to take to farming, agriculture must be economically rewarding and intellectually stimulating. The development of the services sector in rural India will increase income and improve the efficiency of farming. Once a large number of educated youth settle in villages, much of the IT services work can be outsourced from urban to rural areas. This will help in maintaining our global leadership in this area by making such assignments very cost-effective.

"A small farm management revolution is essential for ensuring the viability of small holdings"

To overcome the prevailing widespread malnutrition, several steps are urgently needed for linking agriculture with nutrition and health. First, nutritional considerations must be incorporated in farming system research. For example, pulses or grain legumes should find a place in crop rotation. ICAR's All India Coordinated Project on Farming System Research should have a nutritionist on its staff, so that appropriate agriculture remedies are introduced for the nutritional maladies of the area.

The problem of micronutrient malnutrition can be addressed by adding the nutritional dimension in the programmes designed to promote the cultivation of vegetables and fruits in different parts of the country. A home science graduate well-versed in nutrition can be added to the staff of the National Horticulture Mission in every district. They could also promote nutritional literacy in the area.

Giving the power and economy of scale to small farmers: Over 80 per cent of farm holdings belong to small and marginal farm categories. An urgent need relates to conferring the power of scale to small producers both at the production and post-harvest ends of farming. In the case of milk, this has been achieved through cooperatives. We should foster appropriate strategies for improving the efficiency of small farm management, through a variety of methods like farmers' companies, self-help groups, contract cultivation, etc. A small farm management revolution is essential for ensuring the economic viability of small holdings. If this does not happen, prime farm land will get increasingly diverted to non-farm purposes.

The global food price situation is grim. We have to depend on home-grown food and feed to meet the needs of 1.2 billion human beings and one billion farm animals. The prevailing global food scenario makes it clear that the future belongs to nations with grains and not guns. ◆

The author is the Chairman of M.S. Swaminathan Research Foundation

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Srivatsa Krishna

Cuts Like a Knife

I took it all for granted
But how was I to know
That you'd be letting go
Now it cuts like a knife...
Bryan Adams

Pranab-*da* may or may not be a Bryan Adams fan, but let us hope his Budget does better than this for India's infrastructure sector. The key issues facing the sector are the following:

First, the number of projects that have actually been put out for bid is extremely small. Second, the post-tax incremental rate of return, or IRR, on investment in infrastructure projects hovers between 14 and 20 per cent. This is simply not enough to attract big-ticket investment from foreign sources. They get roughly similar returns in their home countries.

Third, there seems to be no clear view on what sort of projects should take the private public partnership, or PPP, route, and what kind should be carried out by the government alone. Lastly, the entire execution process, including land acquisition, is fraught with opportunities for crony capitalism, leading to unimaginable corruption.

Frankly, the Budget is not going to resolve most of these visceral issues. It can do something about financing and policy issues but that, too, is like expecting a tailender to hit a six off the last ball to win a key ODI tournament.

Global investors are not particularly gung-ho about Indian infrastructure at the moment since no visible effort is being made to address the problems plaguing it. Two other important factors have put them off further. First, thanks to all the recent scams, India has received significant negative publicity overseas. Debt, unlike equity, is very conservative and tends to shy away from such scenarios.

> *"Frankly, the Budget is not going to resolve most of the visceral issues facing Indian infrastructure"*

Second, there is no long-term currency hedging market today between the US dollar and the Indian rupee. In such a scenario, the cost of hedging is about three per cent, which will have to be added to the eight to nine per cent global return expectations of any debt fund. So we are looking at returns of 11 to 12 per cent which make such debt at least at par with, if not more expensive than, the cost of debt for far less risky projects. Until there is an opportunity for economic arbitrage it will be impossible for an international debt fund to take off.

Almost all major power project developers admit that absence of equity is one of the main constraints facing them along with viable fuel linkages. Big-ticket debt is also an issue, but then debt comes only if there is equity availability in the first place. For instance, an ultra mega power plant, or UMPP, requires a minimum investment of $4.5 to $5 billion (₹20,000 to ₹22,500 crore) and even with a debt-equity ratio of 70:30, developers have to find almost $1 billion (₹4,500 crore) of equity. Getting funding for the forthcoming UMPPS would thus require an enormous effort in view of the negative impression prevailing about the country overseas.

The absence of long-term, fixed-price instruments continues to be one of the most serious issues facing India's infrastructure sector. The development of a corporate bond market, which will require amendments to more than 60 existing laws, is obviously not going to happen anytime soon, especially given the nature of India's fragmented, coalition polity at present.

So don't expect much to come of the Budget. Listen to some good Bryan Adams numbers instead. ◆

The author is an IAS officer

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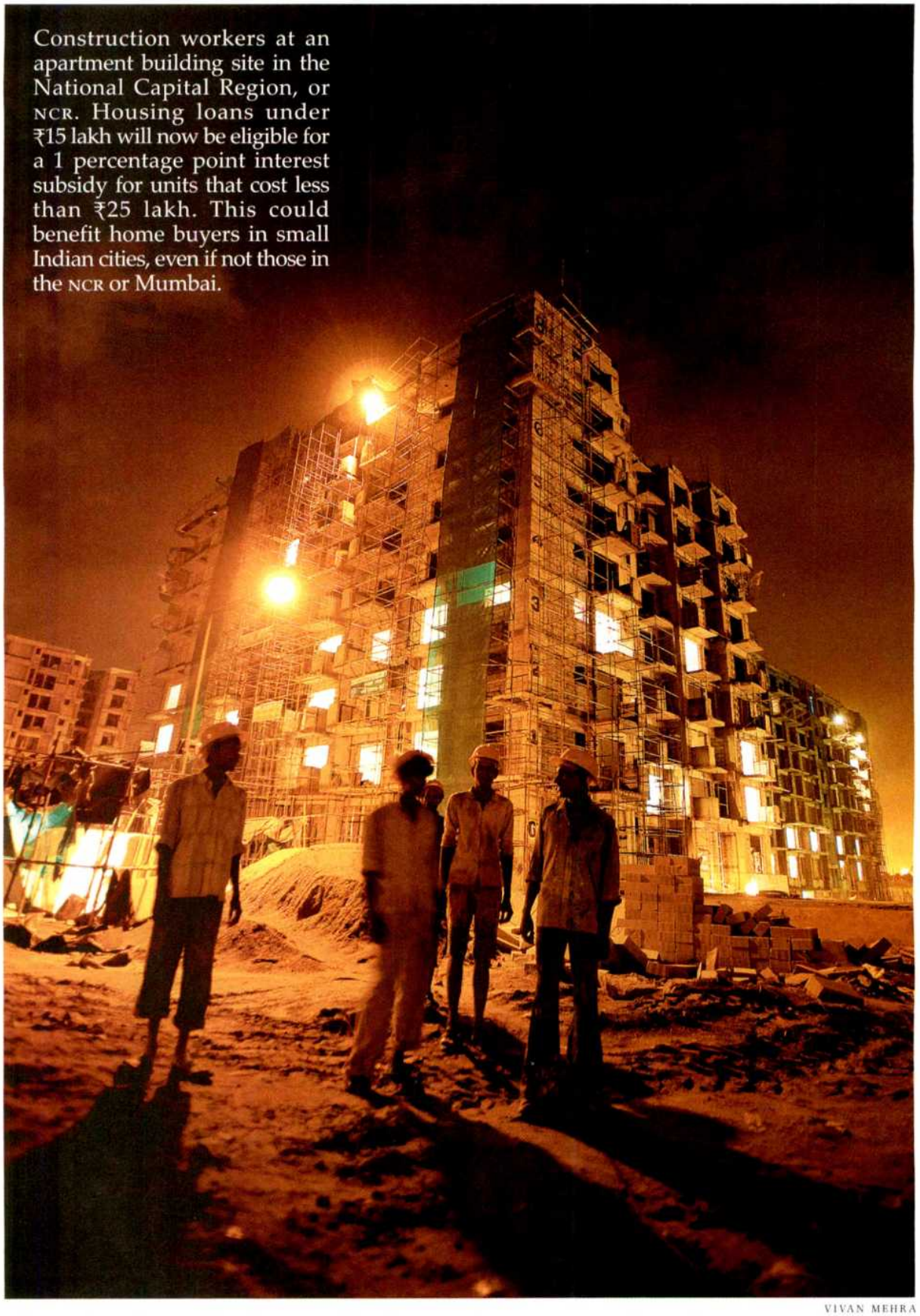

Construction workers at an apartment building site in the National Capital Region, or NCR. Housing loans under ₹15 lakh will now be eligible for a 1 percentage point interest subsidy for units that cost less than ₹25 lakh. This could benefit home buyers in small Indian cities, even if not those in the NCR or Mumbai.

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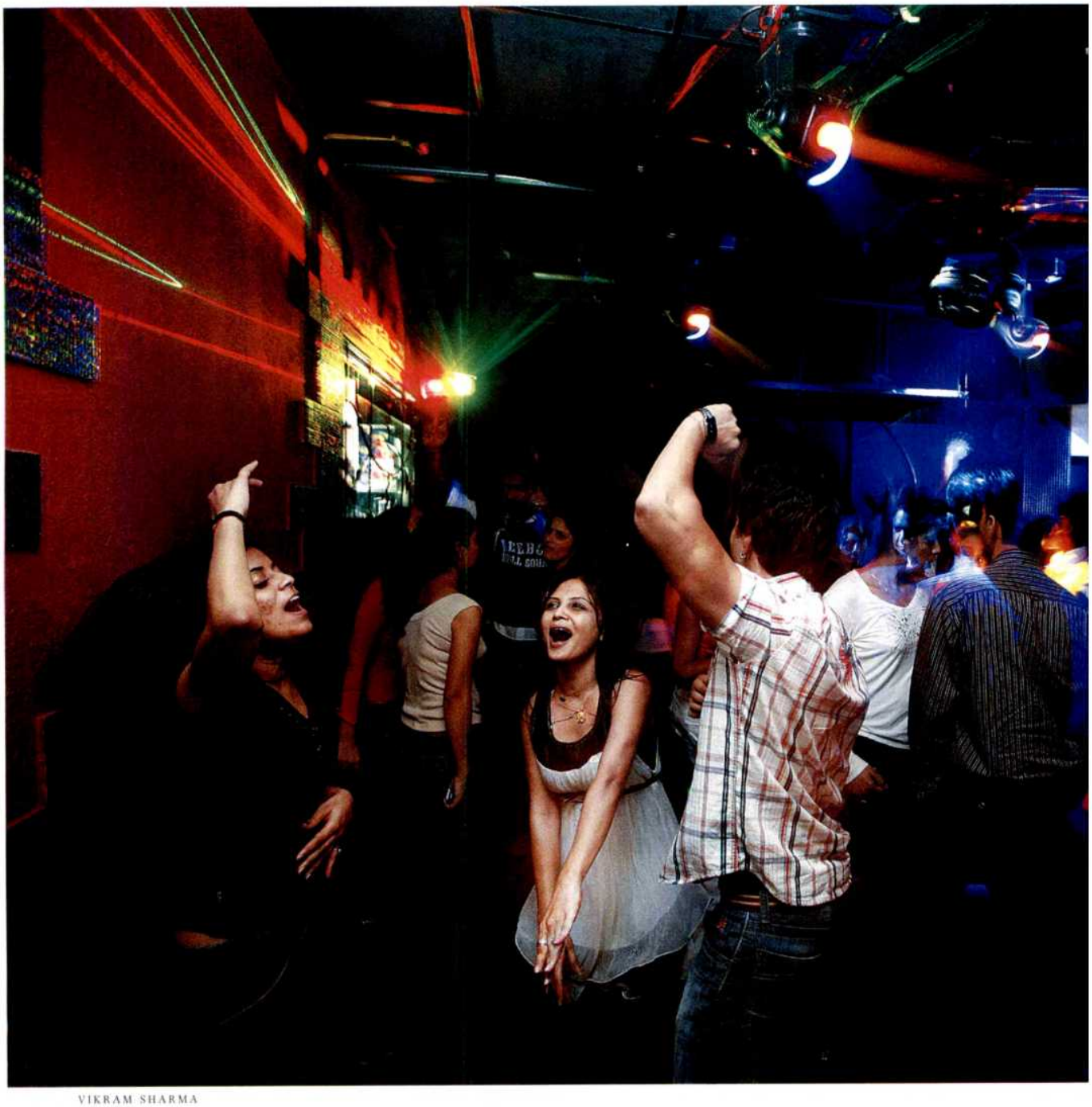
HONDA

Somoti Devi, a 90-plus woman in Haryana's Hodal village. She is lucky — not many in India reach her age. Latest UNDP figures show life expectancy at birth in India at 64.4 years against China's 73.5 years. The budget seeks to step up Plan allocation for health by 20 per cent.

Revellers sway to music at Voodoo, a well-known night club in Chandigarh. Partying out is likely to get expensive as the budget proposes levying service tax on air-conditioned restaurants that have licences to serve liquor. Hotels whose daily tariff is above ₹1,000 also come under the service tax net.



VIKRAM SHARMA

LALIT RANA

Long on India

Exits dent a valuable venture and private equity business Sequoia Capital built, but the firm is unperturbed. BY JOSEY PULIYENTHURUTHEL

Late on February 14, around 11 pm, a visitor to Sequoia Capital's website was in for a bit of a shock. The names of four partners of the firm, arguably the most successful in venture investing in India, were absent from the site. The visitor, Sahad P. V., a trade journalist of 13 years, had the story he had heard from a source, confirmed: Sumir Chadha, K.P. Balaraj, Sandeep Singhal and Surendra K. Jain had quit.

VCCircle.com, the site that Sahad, who goes only by his first name, edits, broke what was then the Indian venture community's biggest story. The exit of the four senior-most executives managing $1.7-billion — one of India's biggest venture capital and private equity or VC/PE — operations, "was definitely a shocker but was done with surgical precision," says Sahad. Sequoia India immediately appointed two

Who Sequoia Will Miss

Roles the seven MDs at the VC/PE firm played, based on management theorist Meredith Belbin's model* on why teams succeed or fail

*http://bit.ly/belbinteams

Old MDs | New MDs | Exiting MDs

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The 51 companies Sequoia India invested in

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- Celon Labs
- Coastal Projects
- Cognizant Technology
- Comviva
- Cotton County
- Druvaa Software
- e-Clerx
- Edelweiss
- Equitas Microfinance
- Fashion and You
- Genesis Colours
- Global Logic
- Glocal Healthcare
- GVK Biosciences
- Hindustan National Glass
- Idea Cellular
- Ideacts
- IMI Mobile
- Ind-Barath Power
- ISFC
- Iyogi
- Just Dial
- K12 Techno Services

insiders to the posts of managing directors and said the exiting four would continue as directors on the boards of the companies they were on.

Chadha and his three colleagues are moving out to start a new fund to invest in public markets. "We will keep it small... a couple of hundred million, perhaps, and hope to close it by the end of the year," he says. "Just like we spotted high-growth companies (at Sequoia), we will invest in great listed companies and help them grow." Their new venture will be modelled on Warren Buffett's Berkshire Hathaway or San Francisco's SPO Partners & Co. — both famous for their long-term purchase of publicly listed stocks.

In the gold rush-like scramble in India's venture investing world, the Sequoia quartet — especially, Chadha and Balaraj — are seen as pioneers. In March 2000, just when the Nasdaq had peaked in the dotcom boom, the duo — with a third colleague Raj Dugar — quit Goldman Sachs jobs to set up what was India's earliest US-India investing firm. By October that year, when the Nasdaq had shed about a third since its peak in a sign that the dotcom boom was over, their venture, WestBridge Capital, had raised $140 million from the likes of Goldman Sachs, Capital Z Investments, SUN Technology, and others.

That was all the good news for some time. "India went through three years of death," said Chadha, who met Balaraj, a junior-level Davis Cup player from Chennai, at Harvard Business School (class of 1997). Before those three years ended, Dugar has left WestBridge. That was also when WestBridge made some of its worst calls — Workadia, offering customisable intranets, and Intercept Consulting, an online advertising solution. "With the tech and quasi tech recession in the US, it was a very difficult environment for small tech companies in India," says Balaraj.

But WestBridge stuck it out. By 2004, it was time for the next round of fund raising for the firm. Early in 2005, WestBridge Investments II closed $200 million in funding from limited partners — as investors in VC/PE funds are known — from the first round and new backers like US university endowment funds, including Harvard and Stanford universities. With that round, Westbridge, Chadha and Balaraj came to be respected in the Indian investing fraternity. "There were three waves in venture capital (fund raisings) in India," says Chadha. "First 1994-95, second the dotcom era and the third was after Westbridge II."

The 2005 capital raising also marked a change in investment strategy of the fund. Until then, Westbridge had backed companies primarily in the software or business process outsourcing, or BPO, businesses. Those funded included ICICI Onesource (now called FirstSource); healthcare BPO service provider Integreo Inc.; marketRx, a pharmaceutical support services firm; debt collections firm Astra Business Services and the like. That industry focus expanded later to other industries such as consumer finance, insurance and drugs, with some gems of investment such as Manapuram Finance that yielded five times returns.

A year later, Chadha and Balaraj — who by then had roped in Singhal, with a background in consulting and consumer goods, and Jain, an ex-Intel engineer — made a decision that saw them move up a few more rungs in the esteem of the fraternity. In May 2005, WestBridge merged with Sequoia Capital — a Silicon Valley VC firm that had one

Sequoia India's $1.74 bn is managed locally and its association with teams in Israel and China boosts local smarts

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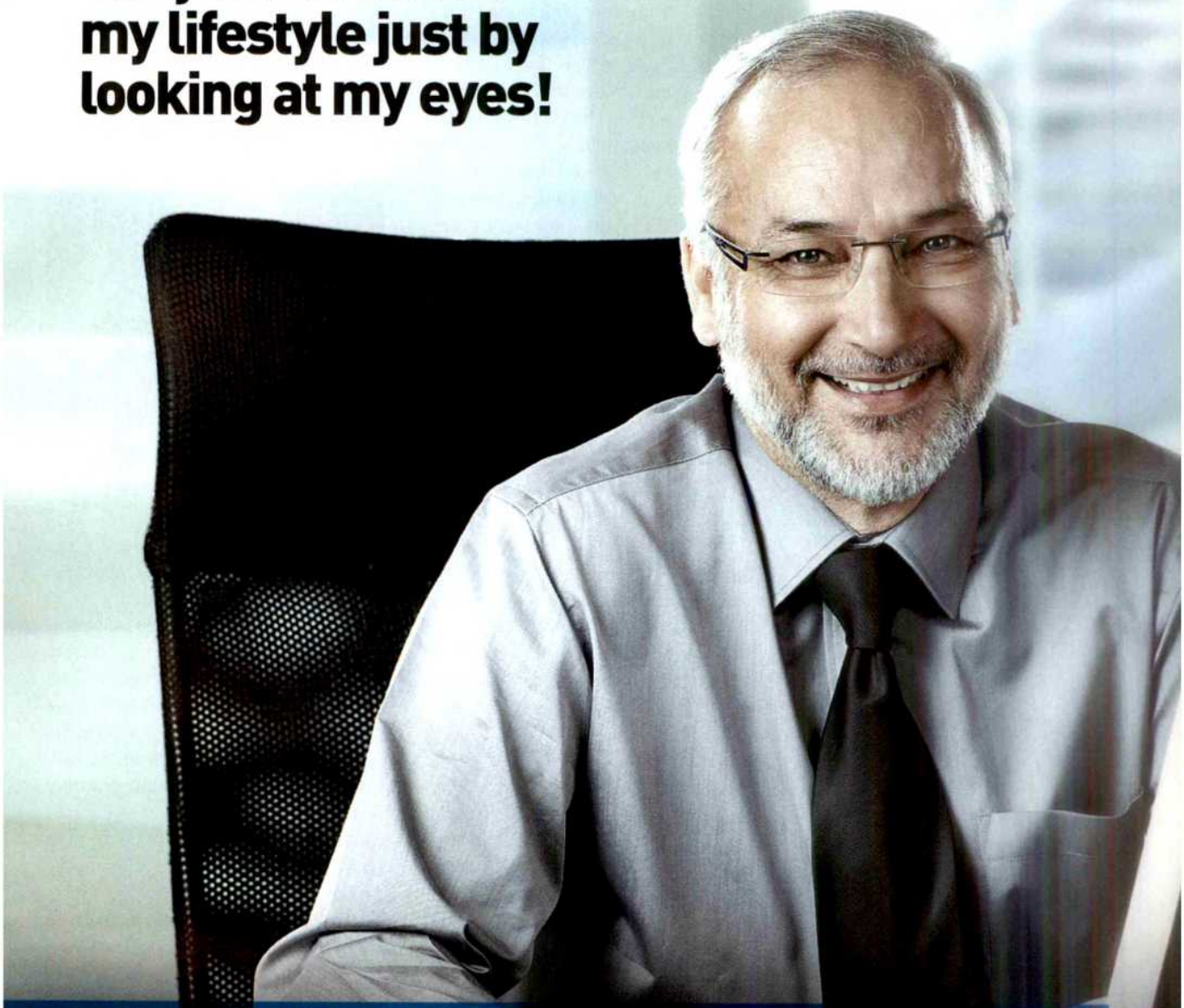

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What's on India

of the most feted investee lists in the US. Sequoia had funded Google, Apple, YouTube, Yahoo, Cisco Systems and Oracle among dozens of its investments. There have been similar mergers in the Indian VC/PE industry but none with a firm like Sequoia's.

For Sequoia, which had expanded into Israel and China earlier, WestBridge offered the perfect vehicle to leapfrog into the fast-growing VC/PE business in India. "In China and Israel, they had built from the ground up," says Balaraj. "Besides, 80 per cent of our investor worlds overlapped with common limited partners," he added. Very quickly, Sequoia India, as WestBridge was renamed, raised a $400-million fund to invest in late stage companies and listed entities. Funds raised since have taken the total fund size at Sequoia India to $1.74 billion.

MICHAEL MORITZ, Managing Director, Sequoia Capital

"High-performing teams rapidly fill a void like this... **I am sleeping very well"**

All of this cash is managed from India but the Sequoia association spanning Silicon Valley to Shanghai with Tel Aviv in between boosts local smarts So, Sequoia Israel helped Global Logic, an outsourced software product development firm with a large presence in India, to expand in that country. The reverse occurred, too: Sequoia India's partners introduced Snaptu, a mobile application company from Tel Aviv, to Bharti Airtel resulting in the Israeli firm's first Indian customer. "The opportunity to talk to the right people in Bharti... would not have come about without the partners in India," says Shmil Levy, Managing Director, Sequoia Israel.

So, what does the Sequoia model risk with the four senior departures? Michael Moritz, the soft-spoken man running the worldwide firm, is unruffled. "High-performing teams rapidly fill a void like this," the managing director for Sequoia Capital said in a phone interview. "I am sleeping very well." As if to drive home the point, Sequoia India's investment committee approved $35 million worth of investments on February 14.

Still, Moritz will have to address a gaping hole in Sequoia India. Abhay Pandey, a managing director at the firm, said in an interview in September last year that the firm was perhaps too spread out funding deals from $1 million to $75 million. "(Such) diversity means a lot of resources. A structured manufacturing deal versus a dreamy venture deal requires very different approaches," he had said.

Industry experts think Sequoia India has a challenge on its hands all right, at least in the immediate term. Sahad, who has reported extensively on Sequoia India, says: "In early stage investments, they have a good team at work but will need to beef up their growth stage and PIPE teams for sure." PIPE refers to private investments in public equity investments. Adds the senior manager of a rival PE firm, "I can't see the current team being able to strike the big deals with large corporates. They will need to hire." If that's the only fix needed, the exits may not be more than a hiccup for the storied Sequoia. ◆

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RAJAT BARAN

A History of Flips and Flops

1994

The National Telecom Policy 1994 is announced, setting the stage for cellular mobile telephony service, or CMTS. It says the private sector will play a role, the government will get an annual licence fee. Licences to set up mobile services in four metros awarded, under minister Sukh Ram.

Sukh Ram

1995

CMTS licences are auctioned for non-metro circles. All the winners, including those who won the metros, bring in foreign partners, since 26 per cent foreign direct investment is allowed in CMTS. Telecom Italia, Swisscom, Telstra, British Telecom, France Telecom and AT&T buy stakes in Indian firms.

ANATOMY OF A SCAM

The behind-the-scenes story of how former telecom minister A. Raja manipulated government rules to rob the exchequer. BY KUSHAN MITRA

January 10, 2008, was not an exceptionally wintry day in New Delhi. As usual, the fog had set in, delaying trains and planes. Much of the southern part of the city was a gigantic construction zone for the 2010 Commonwealth Games. Morning FM radio broadcasts had angry calls from commuters stuck in traffic.

Inside Sanchar Bhawan in central Delhi, housing the head office of the Department of Telecommunications, or DOT, there was chaos of a different kind. A scrappy queue that afternoon on the ground floor of the 13-storey building got so unruly that one person fell down face first ending up with cut lips and a bloody mouth. Mahendra Nahata, Chairman of HFCL, tried to gatecrash the reception area and was escorted out by a security guard.

Those in the raucous queue, most clutching ₹1,651 crore worth of bank drafts, were putting in applications for new mobile phone service licences with a promise of wireless spectrum that came virtually free. (See *Why the 2G Rush?*) Those ahead in line had a better chance of entering a market of nearly 500 million phone customers.

The afternoon was to make the headlines nearly three years later. On November 10, 2010, the Comptroller and Auditor General, or CAG, released a report saying the chaotic events at the DOT office that day caused a "presumptive" ₹176,000 crore loss to the national exchequer — an amount that would have nearly erased the borrowings of the Central government in 2007-08.

The CAG did not say as much but the message was clear: the manner in which the Telecom Minister Andimuthu Raja and Siddharth Behura, Telecom Secretary and the Chairman of the Telecom Commission, had issued the licences was not above board. Both Raja and Behura are the subject of an investigation by the Central Bureau of Investigation, or CBI, as are other government officials from the time and some of India's top businessmen, including Anil Ambani and Prashant

1997

The Telecom Regulatory Authority of India is formed as an independent regulatory body to oversee the telecom sector and resolve disputes. Between 1997 and 1999, several foreign investors move out because of 'unfriendly policies' although some operators did get additional spectrum in several circles. Beni Prasad Verma is Telecom Minister.

Beni Prasad Verma

1999

When the National Democratic Alliance comes to power, mobile operators owe the government a cumulative ₹3,500 crore as licence fee. Jagmohan, then Telecom Minister, wants them to pay up. He is replaced by **Ram Vilas Paswan**, who steers the **New Telecom Policy 1999**, which sparks explosive growth, but also creates problems.

Jagmohan

ecom service areas, also known as circles. UASL is a single licence that allows companies to offer fixed-line, cellular phone, Internet access services, satellite data services, among several other telecom offerings. Importantly, the same day, DOT legalised 'dual-technology' in mobile telephony services: phone firms could use the Europe-developed GSM technology, short for global system for mobile communications, or CDMA (code division multiple access, a US protocol), or both — there was no restriction.

GSM services were more popular and no GSM-based phone firm applied for the switch to CDMA. All CDMA players, in contrast, had already applied to move to GSM as well — some as far back as 22 months. Reliance Communications, or RCom, the leading CDMA operator, had sent a letter pleading for GSM spectrum as early as February 2, 2006. HFCL Infotel and Shyam Telelink, now MTS, had made requests on July 11 and August 7 that year, respectively. The three were told to pay the requisite fees within 15 days but RCom, part of the Anil Ambani-promoted Reliance ADAG group, offered to pay ₹1,651 crore on October 19 itself. Tata Teleservices applied on October 22.

Then came the next flip-flop. K. Sridhara, Member, Technology, Telecom Commission, wrote to the Law Ministry on October 26, 2007, seeking the opinion of the Attorney General or Solicitor General of India on the issuance of new UASLs and the use of dual-technology. Of the options he listed, one suggested September 25 as the cut-off for accepting licence applications, cutting short DOT's original deadline of October 1 by a week. The reason was bizarre: September 25 was "the date on which the cut-off date for receipt of applications were (sic) made public through press". (Several telecom industry people *BT* spoke to conclude this change of date was done to suit a company that applied for dual technology spectrum. A crucial annexure which contains the paper trail explaining how decisions were taken to bring forward the cut-off date and allot dual-technology licences was not available with the rest of the Patil report.)

The Law Ministry's prompt response was to set up an empowered group of ministers, a committee of a few members of the Union Cabinet, to look into the matter.

Raja again dug in his heels. On November 2, he opined that the view of the Law Ministry was out of context and the 'First Come, First Served', or FCFS, policy used until then would stay in place and that the 121 approved applications received until September 25 would be considered, not those after that. This, says an industry executive, amounted to "shifting the goalpost after a goal had been scored and ruling out the goal retrospectively".

On January 7, 2008, a note written by A.K. Srivastava, Deputy Director General (Access Services), DOT, reiterated Raja's FCFS policy but with a twist. Those who applied on September 25, 2007 would be eligible for a UAS licence and spectrum rights but the order in which they would get it would depend on who completed the qualifying conditions — such as producing documents to verify terms of the licence and the ₹1,651 crore draft, among others — first.

This set the stage for the chaos of January 10. At 1.47 p.m. that day, DOT issued a press release officially stating the September 25 cut-off for UASL applications. Less than an hour later, at 2.45 p.m., a second press statement from DOT said all applicants, both for fresh UAS licences and for dual-technology spectrum, must report to the Committee Room of Sanchar Bhawan at 3.30 p.m. To comply with FCFS norms, the applicants would need to pay the ₹1,651 crore to the government upfront. The first people to pay and produce documents would be the first to be issued a letter of intent, or LoI, and be the first in line for spectrum.

WHY THE 2G RUSH?

Less than 10 per cent of mobile phone customers – mostly with firms such as Bharti Airtel and Vodafone – make 56 per cent of the operating profits of the industry. Could the newcomers then even dream of making profits? The answer lies in 20-year rights over spectrum, a scarce and valuable resource. The new licensees are sitting on gold mines, especially since a three-year lock-in period on mergers ends later this year or some time next.

A. Raja

2005-07

Dayanidhi Maran

After the **United Progressive Alliance** comes to power in 2004, there is talk of 3G licence auctions. Some operators get spectrum to fill in the gaps in their nationwide networks. In 2006, Reliance Communications, now controlled by Anil Ambani, pleads for spectrum in the GSM range to offer services in both GSM and CDMA. The COAI objects to this. Few new licences are awarded. Dayanidhi Maran is Telecom Minister. Call rates drop to ₹1 a minute. Handset prices fall.

2007-11

Maran loses his job to **Andimuthu Raja** following a feud within their Dravida Munnetra Kazhagam party. In April, before Raja came in, Maran had sought spectrum allotment guidelines from TRAI. Raja makes selective use of the guidelines to award more licences. Spectrum is not auctioned and UAS licences sold at the 2001 price. In 2010, the Comptroller and Auditor General says this caused a presumptive loss of ₹1,76,000 crore to the country.

The applicants had 45 minutes to get a bank draft issued. As Mahesh Uppal, Director of telecom consultancy Com First, says: "This amount of money is hardly something people keep ready. There had always been speculation that Raja knew people in the real estate sector. The small window that was given and the amount sought do hint that information was leaked."

An idea of the rush at Sanchar Bhawan is given by S.E. Rizvi, a DoT Under Secretary, who deposed before Justice Patil. He says he was informed around 10.30 or 11.00 a.m. that counters might need to be set up at Sanchar Bhawan between 3.30 p.m. and 5.30 p.m. to receive the UASL applicants. Put differently, it was known nearly four hours before the 2.45 p.m. press release went out that spectrum would be allotted to 122 UASL applicants that afternoon.

By 5.30 p.m., when Rizvi and other DoT officials wound up manning the counter, the Raja-seeded spectrum rush was over. The winners:

THE SCALE OF WHAT IS TODAY COMMONLY CALLED THE RAJA SCAM IS MIND-BOGGLING

a) Aircel, a company owned by Malaysia's Maxis, controlled by Indian-origin billionaire Ananda Krishnan, whose company Astro in December 2007 picked up a stake in Sun DTH, owned by the Maran family of Chennai. The Marans are closely related to M. Karunanidhi, Tamil Nadu Chief Minister and leader of the Dravida Munnetra Kazhagam party, of which minister Raja is also a member.

b) RCom, the company which offered to pay its ₹1,651 crore UASL fee the same day DoT announced it could also offer GSM services.

c) Swan Telecom, an unheard of entity until then, but whose director Shahid Usman Balwa is under arrest in the current CBI investigations. News reports quoting unnamed sources link Balwa's DB Realty's roots to Dynamix Dairy, a milk products company in Baramati, the constituency of Agriculture Minister Sharad Pawar.

d) Tata Teleservices. Tata group, in recent weeks, has decided not to "engage" with the India Today Group, which publishes *Business Today*. In an earlier communication to *India Today*, it denied benefitting in any way in the Raja controversy.

e) S Tel, controlled by Sivasankaran, the Chennai billionaire and first winner of mobile phone service licences in the metros.

f) Unitech Wireless

g) MTS, and

h) Datacom (now Videocon). ◆

ADDITIONAL REPORTING BY SUNNY SEN

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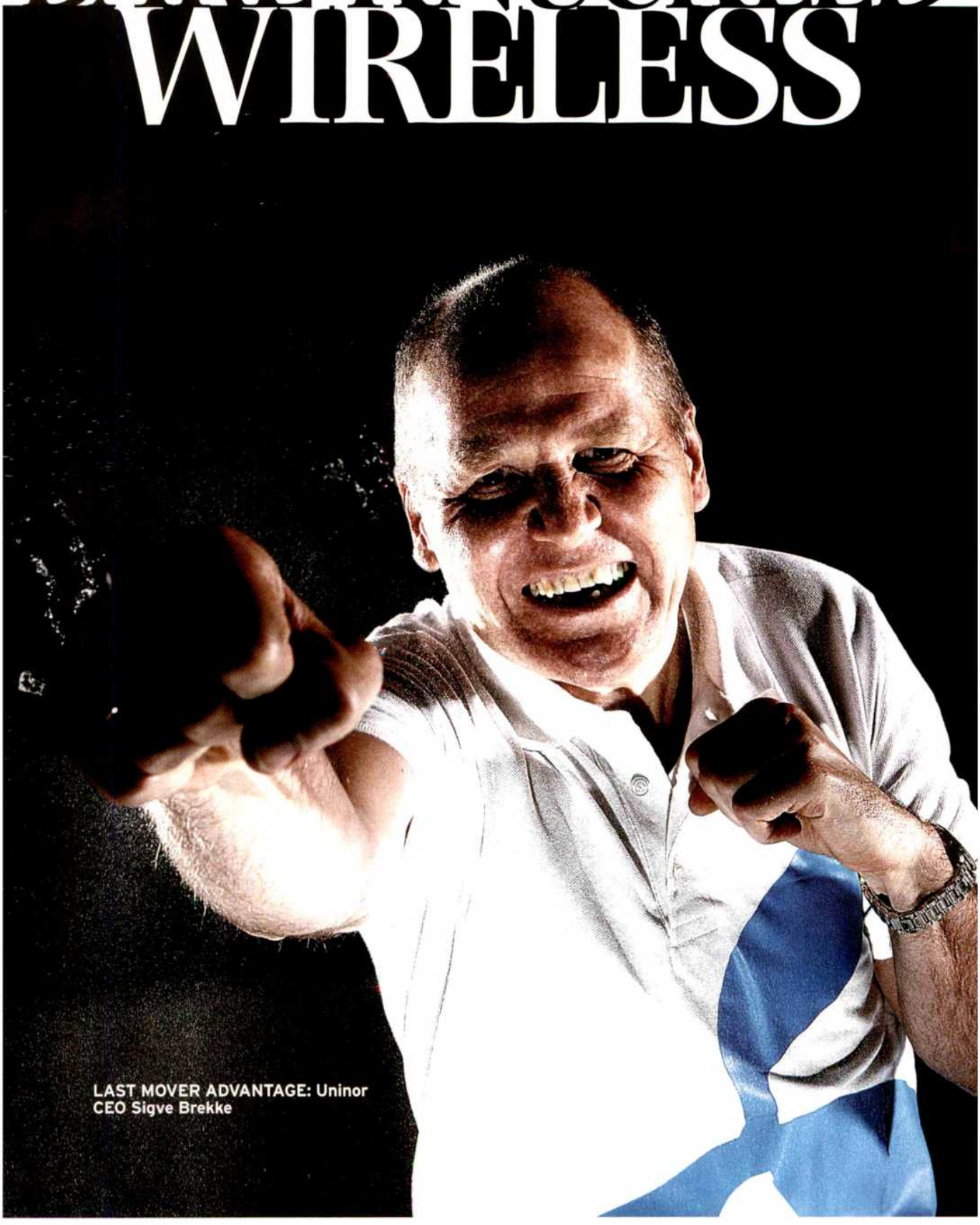


LAST MOVER ADVANTAGE: Uninor CEO Sigve Brekke

Telecom business models get ready for an overhaul as pressures of maintaining margins — and, indeed, survival — mount. BY SUNNY SEN

Sigve Brekke is unusually jovial for a Norwegian but get him talking about his business in India and the transformation to a hardnosed, poker-faced chief executive is quick. "We are attackers but rather than attacking the incumbents, we are here to attack the industry," says the CEO of Uninor, an Indian venture controlled by Telenor, the sixth largest mobile phone services firm in the world.

It is not as if Brekke, 52, a veteran at running businesses in Asia, has a choice. As the 11th entrant in a market of 14 firms, Uninor, a quarter owned by realty company Unitech, has to grab share from others if it has to grow to be even a blip on the screen at its Oslo headquarters. Because its farthest competitor is ahead by a mile — about 130 million customers, really — in the mobile telephony game.

Uninor is going about its grab-India game with a mix-and-match pricing model for voice calls, unheard of until its launch in April 2010. A customer is billed under a "dynamic pricing" scheme depending on the location and time of day the call is made. Effectively, what he is charged is a function of voice traffic at the cellular tower serving him. The more the traffic, the higher the cost per minute, but Uninor promises up to 60 per cent saving compared to pricing plans of its rivals.

In a market of more than 700 million mobile phone connections and still growing the fastest in the world, Uninor's strategy is just another distraction in an industry being constantly buffeted by challenges to its core business model. Think slowing customer billings, rising costs of expanding networks, slit-throat competition... But, for the first time in several years, the troubles are adding up to a tipping point and forcing companies to change, or at least look closely at how they run their businesses.

What could emerge is a completely new business model with nifty ways of gaining market share and building profits around a bouquet of new offerings, while also fighting to lure customers and pare costs even more. Especially to companies that face almost on a weekly basis new pricing plans, new data services, proposals to share networks, regulatory changes like mobile number portability, and, of course, hungry new market entrants.

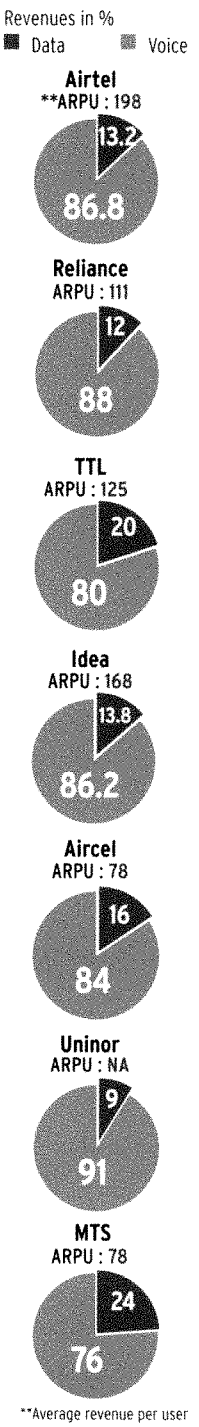
It's been in the making for some time now, but the telecom industry swears that a data revolution is coming soon. The launch of high-speed data services through third generation, or 3G, mobile technology and broadband wireless access, or BWA, could not have come at a better time to provide the impetus to such ambitions. Some point to how in developed markets, data revenues overtook voice revenues in 2009; among Indian mobile phone firms, data is still a meagre 10 per cent of revenues except for those with a focus on Internet access offerings such as Sistema Shyam Teleservices, which runs the MTS-branded service (see *Data Upswing*) or Tata Teleservices Limited, or TTL.

"In Japan and Korea, some operators are deriving 30 to 50 per cent of their revenues from data services. In India, as the contribution is low, we expect 3G to provide a fillip to our initiative," says Atul Bindal, President, Mobile Services at Bharti Airtel, India's top phone firm by revenues which saw a percentage point increase in its data revenues to touch 13 per cent last quarter. It has rolled out 3G services in Bangalore, Chennai and Coimbatore with plans to cover all the 13 circles, or service areas, it has 3G licences in.

Still, getting that wind under its wing will take some doing by Bindal's team. For one, tie-ups with others in this ecosystem. So, Bharti Airtel is partnering Nokia to bundle 3G services on the Finnish phone maker's smartphones expecting that this will further both companies' markets. "We have recognised that we have to increase beyond devices so we are taking data services of an operator and using the leverage of our retail reach to convert our customer for the operator," says Jasmeet Gandhi, Head of Services Marketing, Nokia India.

Services provider Aircel has tied up with

PIE SHARE



**Average revenue per user

PHOTOGRAPH BY VIVAN MEHRA; GRAPHIC BY SANTOSH

Spectranet, a data service firm, to offer WiFi service across 50,000 hotspots in Delhi, Mumbai, Chennai, Bangalore and Hyderabad. Aircel has also tied up with INQ, a phone maker, to preload social media applications on phones bundled with the service. Many more such tie-ups will come up, says Arun K. Khanna, Chairman, Olive Telecommunication, which introduced the first Indian 3G tablet. "To boost data services and reach out to consumers, carriers will have to bundle devices to make a difference," he insists.

But, not only do such tie-upsx predicate complex revenue sharing deals so that both sides benefit, operators are also having to deal with entrants who have been on the data learning curve elsewhere in the world. Tata DOCOMO — joint venture between Tokyo-headquartered NTT DOCOMO and TTL — has already launched data applications such as music and live TV in India. These services are already a rage in Japan and make for almost half of the firm's revenues there. Details of this India drive were hard to come by. An e-mail to Tata DOCOMO for comment went unanswered. The Tatas refuse to respond to BT's queries as a company policy.

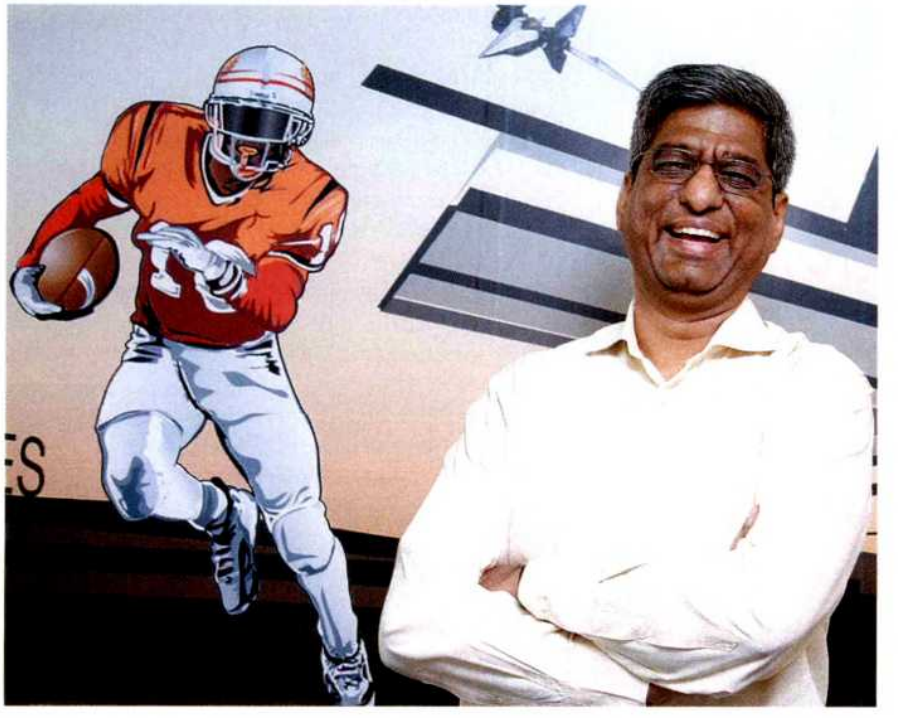
Tata DOCOMO has launched a personalised mobile application, Sparsh, to spread awareness on sexual health and reproduction, and, to be sure, more such applications are in the works. "Financial inclusion, health care and entertainment will happen. Interplay of industries with telecom is in the wings," says Hemant Joshi, a partner at consultancy firm Deloitte Haskins & Sells, not referring in particular to the Tata DOCOMO drive.

Data could be the driver to expand revenues in the years ahead, but operators are obsessive about reducing costs too. While they started sharing telecom towers to mount radios owned by one another six years ago, the new focus is on what the industry calls active network sharing — involving use of the same radio by multiple firms. Kanwalinder Singh, President, Qualcomm, India and South Asia, believes that outsourcing and leasing will be the "new normal".

The promise that sharing of radios can potentially halve capital spending in setting up networks and reduce operating expenses by 30 per cent becomes compelling at a time most firms are setting up their 3G networks. To get the new networks operational quickly, says Samaresh Parida, Director, Corporate Strategy at Vodafone Essar, such tie-ups are more of a necessity, not just a measure to save costs. Vodafone Essar is the Indian unit of the world's No. 1 mobile services firm by revenues.

Almost every firm is talking to every other firm. "We are talking to all the possible operators, but nothing has been finalised yet with options for payment — flat fees or revenue sharing — being tossed around," says Gurdeep Kohli, Chief Operating Officer of Aircel. Even so, radio sharing will not be in crowded, urban areas given the scarcity of spectrum. Such efforts will scale up only in towns and villages.

Uninor, meanwhile, is sticking to its basics. Brekke, who wants to run his business like a low-cost airline, says he is keeping away from the frills of "fancy value-added services" that add on costs. He would rather spend that money on marketing and signing on new customers. Yet another indication of how the Indian telecom business model faces intense churn. ◆



ATUL BINDAL, President, Airtel

"In India, as the revenue from data services is low, we expect 3G to provide a fillip to our initiative"

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Data Upswing

A Russian conglomerate takes a contrarian stance in India wagering on mobile data services and, two years later, sticks by that bet

When Utpal Kant Agarwal, a New Delhi-based tax lawyer, bought a Hewlett Packard notebook computer, two months ago, he decided to invest in an MTS wireless data card which allowed him to connect to the Internet. MTS, a mobile phone and data service run by Sistema Shyam Teleservices, was not his first choice. He had plans to sign up for rivals Reliance NetConnect or Tata Photon Plus services.

What swung him to MTS India was its attractive pricing. At ₹1,000 for the MTS Blaze dongle, it was about a third of what the other two services were priced at and the other attraction was MTS service is pre-paid — something others did not offer then. "It was the cheapest, and in the past couple of months I never had any problem," says Agarwal.

It is a start and MTS India, controlled by Sistema, which also controls Russia's largest mobile phone firm OAO Mobile TeleSystems, has some nine million voice customers but there are signs that the company may have hit a sweet spot in the contrarian call it took while entering India in March 2009. It had then chosen to set up its network based on CDMA wireless technology, considered a standard on the wane with networks running on the rival GSM standard counting for three of four phone customers in India. Nearly half a million of MTS India's customers are wireless data card users. This has boosted its data revenue to nearly a quarter of its total revenues. Bharti Airtel and Idea Cellular, in comparison, see data services stuck at around 13 per cent, which includes text messages, and VAS like ringtones and weather updates.

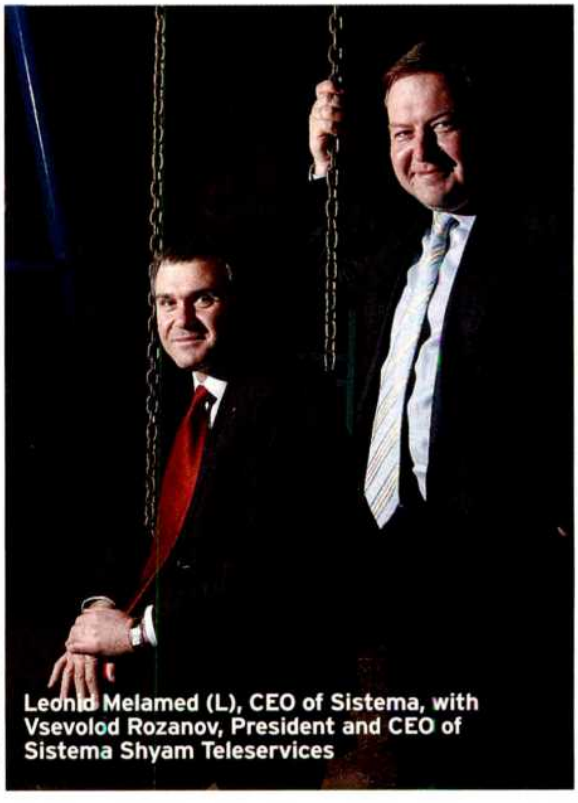
Even as Reliance Communications and Tata Teleservices increasingly push down the GSM path, reducing focus on their CDMA business, MTS is steadfast with its CDMA plans. This strategy to stick with the CDMA platform is despite MTS India's average revenue per user a month, or ARPU, being as low as ₹78, compared to ₹198 of Bharti Airtel and ₹172 of Vodafone Essar. Analysts are not too optimistic. "Reliance is predominantly focusing on GSM... And for a new player like MTS, I don't see a future," says Archit Sehgal, analyst at Jaypee Capital, a brokerage firm.

But as its reach grows beyond the top 100 Indian towns, MTS expects the data contribution to its revenues to increase. "Data heavy strategy is common across the globe, but more so in India," says Mikhail Shamolin, CEO, MTS International, adding that when the next round of predicted consolidation happens, his firm will be ready.

Will high-speed data services offered by new 3G phone licensees be a threat to MTS? Vsevolod Rozanov, President and CEO of Sistema Shyam, believes that by the time such operations scale up, MTS would have become a dominant player. He cites the example of China Telecom, the No. 1 mobile phone firm in China, which runs CDMA networks and adds three million customers a month. That milestone is far away but MTS is taking steps to get there: a launch of MTS-branded handsets will kick off in the coming months.

Rozanov has a stiff target set by the Sistema board: operating profits by 2013 and net profits a year later. "Our business case is unique and MTS is still a start-up for us," says Leonid Melamed, CEO of Sistema. "The task here is multi-dimensional — gain market share, ensure quality of customer experience — but we can do it." ◆

SUNNY SEN



SHEKHAR GHOSH

Leonid Melamed (L), CEO of Sistema, with Vsevolod Rozanov, President and CEO of Sistema Shyam Teleservices

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ROUGH ROAD AHEAD

Sales of passenger cars in India increased by a third in 2010, but rising fuel prices and shrinking margins for carmakers mean 2011 may not be so hot. BY KUSHAN MITRA and SUNNY SEN

On the outskirts of Raniganj in West Bengal, in the coal belt that the state shares with Jharkhand, a Skoda Auto dealership is coming up. People have already started visiting what will be the first Skoda presence, impatient that the opening is still weeks away. In Asansol and Durgapur, two other border towns, there are a few new models on the roads. The Rudra Hyundai dealership in Durgapur is crowded, even on a weekday.

Down south, at Irungattukottai in Tamil Nadu, workers at the Hyundai Motor India Ltd plant are working harder than ever to meet the growing demand. Over the past year, Hyundai, India's largest exporter of passenger cars, actually had to cut back exports to meet local demand.

In north India, passengers taking off from Delhi airport might notice the Maruti Suzuki plant at Manesar in Haryana below them looking like a construction site. India's largest carmaker is investing ₹10,000 crore to add two new production lines with a rated capacity of 500,000 units a year. Maruti's existing production lines are running well above their rated capacity just to keep up with India's seemingly insatiable appetite for cars.

According to the Society of Indian Automobile Manufacturers or SIAM, the total domestic sale of passenger cars crossed two million in the first 10 months of the current financial year, a growth of 30 per cent over the corresponding period last year. If this momentum continues, sales will touch 2.55 million by year-end. That is one million more passenger vehicles than what was sold in 2007-08, making India one of the hottest car markets.

The Organisation Internationale

PHOTO BY BHASKAR PAUL, IMAGING BY SANTOSH

des Constructeurs d'Automobiles or OICA, the global automobile manufacturers body, sees India as the world's seventh-largest automotive manufacturer (including passenger and commercial vehicles). A recent report by consultancy firm Booz & Company predicts that India will be the fourth-largest car market by 2015, absorbing five to six million vehicles a year by 2020. By 2030, India will be ahead of the United States as a market for cars and second only to China.

While this will invariably lead to congestion on India's already crowded roads and might mean a significant increase in the country's fuel bill unless alternative energy sources are found, it also means that India is a land of massive opportunity for carmakers. Tim Lee, President of General Motors International Operations, who visited India in early February, was extremely bullish about the market. "We are not here to make up the numbers, we are here to develop and sell products that lead their segments," he said.

Yet, while there is still a lot of optimism, rising commodity prices, particularly steel, plastics and rubber, as well as hardening

"The government fixes excise rates not on the basis of fuel economy but on the length of the car"

Rajesh Jejurikar, CEO, Automotive Division, Mahindra & Mahindra

HOT LAUNCHES OF 2011

HATCHBACKS

Honda Brio

EXPECTED LAUNCH: September 2011

EXPECTED PRICE: ₹5 lakh

Honda plans to launch its smallest car in India. Will it become a success like the City or fall flat like the Jazz?

Maruti Swift, Ver 2

EXPECTED LAUNCH: August 2011

EXPECTED PRICE: ₹4.5 lakh

India's hottest selling hatchback has been in the market for more than six years now. The new Swift will be a happy change for its owners

Toyota Liva

EXPECTED LAUNCH: March 2011

EXPECTED PRICE: ₹4.2 lakh

The world's largest automaker is set to enter the big Indian hatchback market. Will Liva live up to the expectations?

SEDANS

Volkswagen Jetta

EXPECTED LAUNCH: End of 2011

EXPECTED PRICE: ₹12.7 lakh

The new Jetta will be lighter and have more functions, a better touchscreen, more intuitive controls and better safety features

Mahindra Logan Ver 2

EXPECTED LAUNCH: End of 2011

EXPECTED PRICE: ₹5 lakh+

Mahindra is re-engineering the Logan, but its length will not exceed four metres (so that it falls in the lower excise bracket)

LUXURY

Audi A7

EXPECTED LAUNCH: May 2011

EXPECTED PRICE: ₹60 lakh

The German carmaker's growth story in India's luxury car market continues. The 16-feet sport sedan is expected to boost Audi's car sales

interest rates have led to worries about the future. "There has been pressure on costs and margins for some time," says Arvind Saxena, President of Hyundai Motors India.

"Demand could be dampened by the increase in fuel prices and the rising interest rates on car loans," says Mayank Pareek, Maruti's Managing Executive Officer for Marketing and Sales.

Not everyone agrees. Saxena maintains that though Hyundai increased prices of products across its range by two to five per cent last December, demand has not really been impacted. Karl Slym, Managing Director of General Motors India, believes that despite the Reserve Bank of India having raised rates, commercial banks will not tighten car loan rates for consumers.

Rajesh Jejurikar, CEO of Mahindra & Mahindra's Automotive Division, concedes automobile sales growth may slow down this year — but not because of difficult economic conditions. "The base effect will come into play, so the growth percentage will come down, but I really do not feel that the sales of cars or utility vehicles will slow down this year unless economic growth is severely impacted or inflation really shoots up. Interest rates are a concern, but I do not believe that will put off a buyer's purchase decision," he says.

Mahindra & Mahindra, betting heavily on growth, is bringing out another utility vehicle to give its Scorpio some company. It is also revamping the Logan sedan, and giving it a new brand name.

Another potential problem could be that of installed capacities. Are carmakers expanding fast enough to meet the demands of the future? Or will other companies also be caught napping the way Chevrolet was by the success of its Spark model, and soon faced long waiting lists?

Darius Lam, Senior Market Analyst at JD Power and Partners, a market research firm that specialises in the automotive sector, sounds a note of warning. "Component vendors were impacted very badly during the slowdown and while auto manufacturers themselves have added capacity, I do not feel the component vendors have kept pace," he says. Lam expects the market for light vehicles, both passenger and commercial, to grow 17 per cent in 2011 to well over three million units.

With tighter margins, Lam also feels that carmakers may have to 'adjust' the pricing of their products a little. "Yes, there will be competition with new products coming into the market, particularly in the small car and entry-level sedan segment with Toyota coming in, but I believe that despite this, prices will strengthen this year," he says.

Slowdown Not a Worry

Despite inflation persisting, few in the industry are worried about an economic slowdown similar to 2008. "If you look at the macroeconomic factors, I do not believe we are headed into a similar situation," argues Jejurikar. He expects growth to slow down eventually, but is confident that in the coming months it will remain strong.

"It is important for the

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SAPTARISHI BISWAS

"Only 14 Indians, out of every 1,000, own cars. Even in Pakistan the number is twice that"

Mayank Pareek, Managing Executive Officer, Marketing and Sales, Maruti Suzuki India

government to continue the growth momentum of the economy," adds Saxena. "I expect it to keep doing so." He also believes the auto sector deserves encouragement and support. "The automotive industry is important for the economy. It has a significant peripheral impact," he says.

The Indian automotive market has matured since the slowdown. Besides, even during 2008-09, passenger car sales did not really fall — the last time this happened on an annualised basis was a decade ago, in 2001-02.

This sector has also seen new market segments emerge — for instance, the 'larger' small car, which has further expanded the market. Products such as the Hyundai i20 have been major beneficiaries of the trend. "Increasingly, customers want the features and functionality of a large car even in a small car," says Saxena.

Jejurikar, whose company does not make small cars, feels that a major impediment to the growth of large car sales is the difference in excise duty between a small and a large car. "The government determines excise rates for a car not on the basis of its fuel economy but on its length," he says. Cars less than four metres long pay 10 per cent excise, while larger vehicles pay 22 per cent. This practice, according to Jejurikar, makes even economical sedans such as the Logan more expensive than they should be. "They can be ₹50,000 and ₹70,000 cheaper but for the lopsided excise charge," he says.

Maruti's Pareek differs. "Small cars are a lot easier to manoeuvre on Indian roads," he points out.

One curious new trend in the industry has been the growth of the luxury car segment, priced at over ₹75 lakh. In the past five years, this segment has seen the most growth, albeit from a negligible base. Ashish Chordia, Director at Porsche India, believes this is because Indians are now more comfortable about displaying their wealth and have also acquired a greater understanding of cars. "Why is everybody in this segment coming to India? Aston Martin is launching here soon, too. It is because successful people in India now not only have the confidence to show off their wealth but also a wide range of expensive cars to choose from."

Yet, despite the boom, India still has a long way to go in terms of car ownership. There is enormous potential for long-term growth. "Over the past five years, we have only grown at 13 per cent annually. China grew by 37 per cent every year. Only 14 Indians, out of every 1,000, own cars. Even in Pakistan the corresponding figure is twice that," Pareek says. ◆

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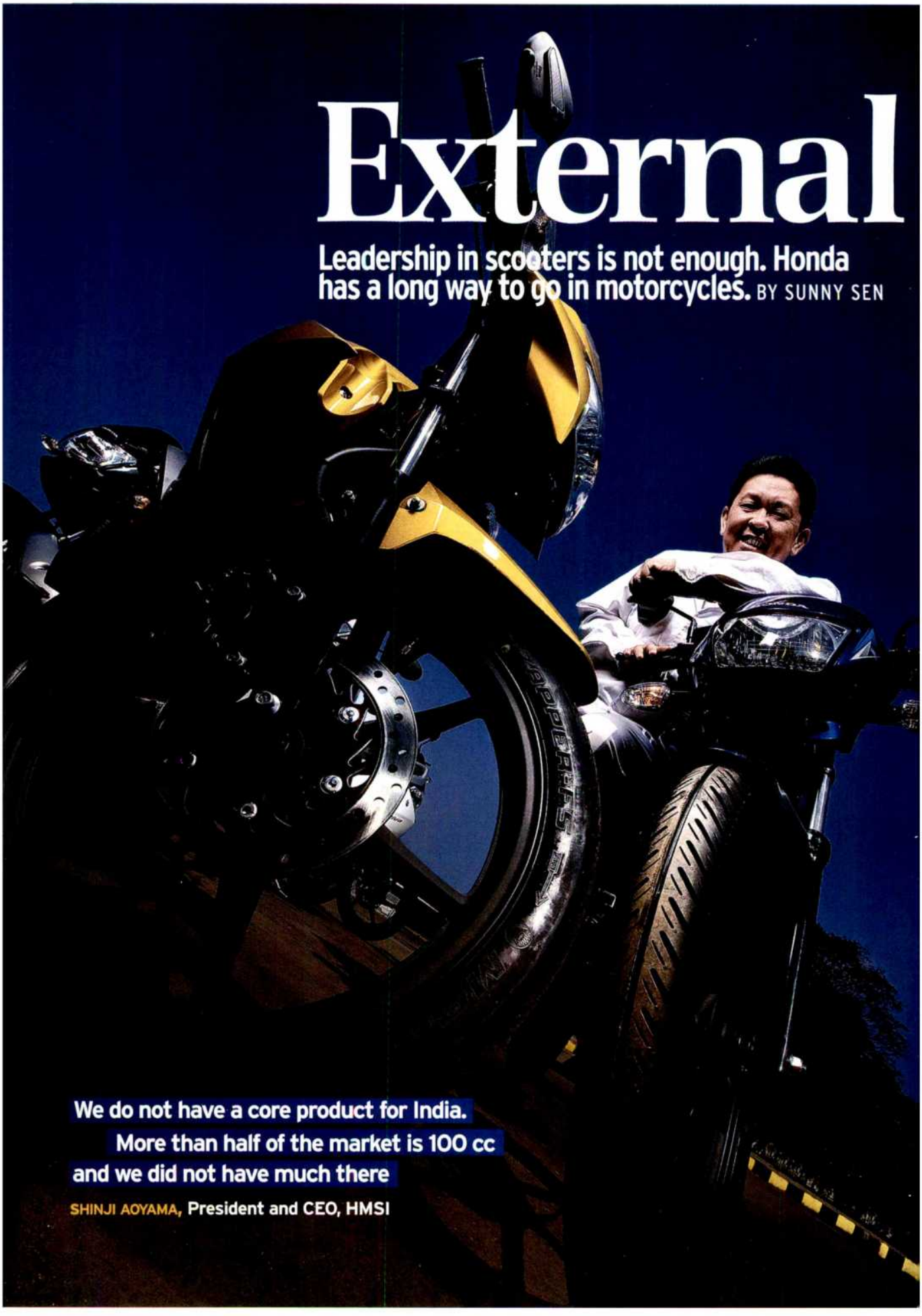
External

Leadership in scooters is not enough. Honda has a long way to go in motorcycles. BY SUNNY SEN



We do not have a core product for India. More than half of the market is 100 cc and we did not have much there

SHINJI AOYAMA, President and CEO, HMSI

Combustion

Kaustubh Sinha, a young advocate in Delhi, went to a Race Honda showroom of Honda Motorcycle & Scooter India, or HMSI, to buy an Activa scooter. But once there, it was a motorcycle from the same stable, the CB Twister, that held his gaze. "I liked the colour, and it is almost the same price as the Activa. It looked super cool too. I think I will switch from scooter to motorcycle," Sinha says.

Customers like Sinha are good news for HMSI. But the company will have to find tens of thousands like him if it wants to be a leader in the two-wheeler market, having ended a 26-year-old association with the Hero Group that had given its flagship Hero Honda a formidable 44 per cent market share. HMSI, a fully owned subsidiary of Honda, has 12 per cent.

HMSI is the leader in scooters with a market share of close to 44 per cent. Hero Honda (it will retain the Honda tag for some time), TVS and Mahindra & Mahindra, or M&M, have shares of 16 per cent, 22 per cent and 8 per cent, respectively, according to the Society of Indian Automobile Manufacturers, or SIAM. But in the motorcycle segment, HMSI still has a long way to go. Motorcycles make for over three-quarters of an increasingly competitive two-wheeler market. Bajaj Auto will soon re-launch its 100 cc model Boxer while new players M&M and Suzuki are revving up.

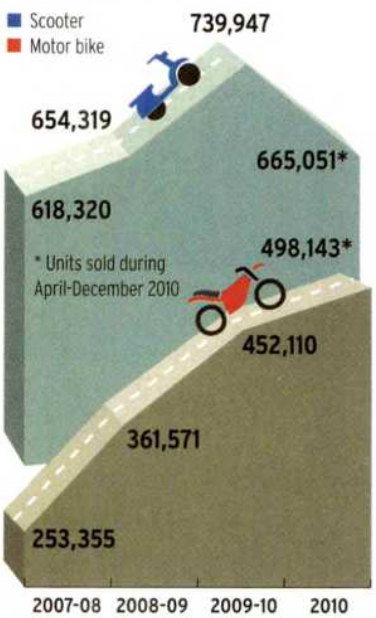
Scooters ruled the segment till the turn of the century. Then, LML's scooter business crashed and even the maker of the ubiquitous Chetak, Bajaj, switched to motorcycles. Kinetic Honda, a joint venture between Kinetic and Honda, had braved the odds when geared scooters were doing well in the country with its automatic transmission model aimed at women.

When the Kinetic-Honda venture broke up in 1999, HMSI launched the Activa. "Though HMSI has a geared scooter (Eterno), most of the growth comes from Activa," says Deepak Jain, Assistant Vice President at Sharekhan, a brokerage firm. HMSI also focused on women, who are becoming the biggest buyers in the scooter market. Today, it has 43 per cent of the scooter market. In the next financial year, HMSI aims to sell 16.5 lakh two-wheelers, of which 8.6 lakh will be scooters.

Says HMSI President and CEO Shinji Aoyama: "The idea is to serve people better with better products." HMSI accounts for nearly six per cent of the parent's global two-wheeler revenues. In April to December 2010, it was one of the fastest-growing two-wheeler makers, even if on a small base, with sales up 40 per cent on the same period of the previous year, right after Bajaj (42 per cent).

HMSI admits it does not have the right products for the motorcycle market. "We do not have a core product for India. More than half of the two-wheeler market is 100 cc and we did not have much there," says Aoyama. The 110 cc Twister was launched in December 2009.

HMSI's domestic sales have been growing ...



Source: SIAM

The Biggest Hurdle

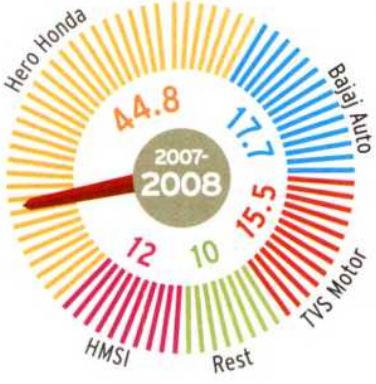
Japanese motorcycle manufacturers have a history of making 500 cc bikes — a market that practically does not exist in India today. The only manufacturer in this range is Eicher Motors's Royal Enfield. Still, Honda succeeded in developing less-powerful motorcycles for India and other emerging markets. "Honda has been a market leader (as Hero Honda) and been in India for long. They just have to get the marketing and the selling strategy right," says Vaishali Jajoo, an auto analyst.

In late 2004, when Hero Group and Honda extended their pact for another 10 years, HMSI launched the 150 cc Unicorn motorcycle, staying out of the 100 cc segment as it did not want to eat into sales of Hero Honda's Splendor and Passion. Production volumes for the 150 cc bike are also more manageable. "If it had come out with a successful 100 cc bike, it could

PHOTOGRAPHS BY VIVAN MEHRA; GRAPHICS BY SANTOSH

Workers at HMSI's Manesar plant which has seen three labour upheavals

...but its market share remains almost stagnant



Figures for 2010 are for April-December

not have managed volumes," says an analyst who does not wish to be named. At present, buyers have to wait for up to eight months for some models even though the company's plant is working at full capacity.

Not every buyer is willing to wait that long. Carmaker General Motors India learnt this the hard way: when it launched the Chevrolet Spark, it did better than expected, but then started losing out because it could not ramp up production fast enough.

HMSI's plant at Manesar in Haryana rolls out 1.6 million units a year on three manufacturing lines. The new plant, at Bhiwadi in Rajasthan, will be operational by mid-2011, producing 1.2 million units a year. Volumes are important in the 75-125 cc bike segment, in which HMSI now has a share of 2.72 per cent. Hero Honda accounted for 70 per cent and Bajaj 18 per cent of the 47.8 lakh units sold in April-December 2010. Nearly three in four motorcycles sold are in the 75-125 cc segment.

HMSI has been a strong contender in motorcycles above 125 cc, although its market share of 20 per cent is way behind Bajaj's 51 per cent. The segment offers premium pricing and high margins to manufacturers. The price of a 100 cc motorcycle is about ₹40,000, against ₹60,000 to ₹70,000 for a 150 cc one. Margins go up from 10 to 12 per cent for a 100 cc model to 25 per cent for those in the 150-180 cc segment.

But, while the Japanese major is addressing problems related to technology and capacities, labour trouble is another matter. HMSI has had three labour upheavals in the past five years. In December, workers shut down the plant for a day after a security executive allegedly slapped one of them.

"The northern belt does not have a history of unionisation," explains Rakhi Sehgal, an activist with New Trade Union Initiative, a non-government organisation. Harjeet Grover, a former general secretary of the first union to be set up at the plant, says: "The management tries to dominate the workers."

Aoyama disagrees: "We will go bankrupt if we listen to everything the workers say..." A second union, formed two years ago, was reportedly close to the management. But in the elections this January, it lost to the first union led by Suresh Gaur. Grover says the management had created a wall between the 2,000 payroll workers and the 3,000 to 4,000 contract staff — separate buses for commuting, lockers and even punching machines. Aoyama defends this as a global best practice since the profiles of these two groups of workers are different.

Then, in distribution, HMSI has 800-odd outlets against Hero Honda's 4,200. Another deterrent is a common one across industries: input costs are increasing and eating into margins. "We can't pass on the cost to the buyer. We have to reduce production cost," says Aoyama.

Analysts say in 10 years, HMSI will have a healthy 15 to 17 per cent share of the two-wheeler market and the loser could be its former partners, the Munjals of Hero. But, that may not be enough for the ambitious Honda. In most emerging markets like Indonesia, Brazil, Vietnam and Thailand, its market share is 45 to 50 per cent. In India, that is a long way off. ◆

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Juicy Returns

Mega food parks are eliminating middlemen from the farm-to-fork chain. BY KAKOLY CHATTERJEE

Workers prepare *chyawanprash*, the only product that is prepared manually as the ingredients are mixed at different temperatures

PHOTOGRAPHS BY MONEY SHARMA

Next winter, Pritam Singh and Hardeep Singh intend to plant wheat after they have harvested their basmati crop. For the first time, the Singhs and many others like them from Dinarpur and Sandevpur villages near Roorkee in Uttarakhand got the full payment for their basmati produce within seven days of the harvest. Earlier payment would take months, making it too late to think of a second crop.

The trigger for this change is a mega food park coming up at Haridwar, 32 km east of Roorkee, one of the 30 proposed across the country. This food park, backed by yoga guru Baba Ramdev, aims to eliminate middlemen in the farm-to-retail chain for a host of products ranging from branded basmati rice to herbal creams and fruit juices.

"Now we do not have to deal with middlemen, who never paid us on time and often gave us less than the market price," says Pritam. "Now that we get payments on time, I plan to cultivate wheat and other cereals as well," adds Hardeep.

Farmers like them take their produce to the food park's collection centres, where it is sorted, graded, priced and paid for.

Mega food parks such as the one at Haridwar, part of an October 2008 initiative by the government, are attracting the attention of health products brands, FMCG manufacturers and retail giants such as Pantaloons Retail (India) Ltd, all driven by the need to retain customers in these times of high inflation. The retail players are picking up equity stakes in the special purpose vehicles, or SPVs, that have set up the food parks.

Patanjali Ayurved Ltd has a 49 per cent stake in the Haridwar park and 25 per cent in the Jharkhand Mega Food Park. Ozone Ayurvedics has a 48 per cent stake in the North East food park; Pantaloons Retail owns 30 per cent of the Karnataka Food Park, while Aditya Birla Nuvo holds 74 per cent in the Uttar Pradesh one.

Acharya Balkrishna, MD of the Haridwar food park and chairman and MD of Patanjali Ayurveda Ltd., says while the food processing ministry is allocating ₹50 crore for each food park, it expects the private partners to put in an equal share. The government is staying out of the SPVs even in an administrative capacity.

The Centre's contribution of ₹50 crore for infrastructure, which

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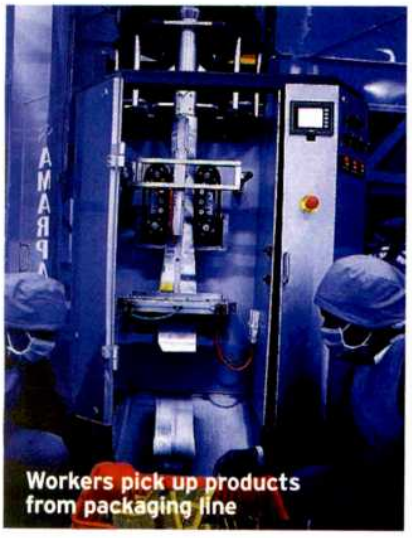
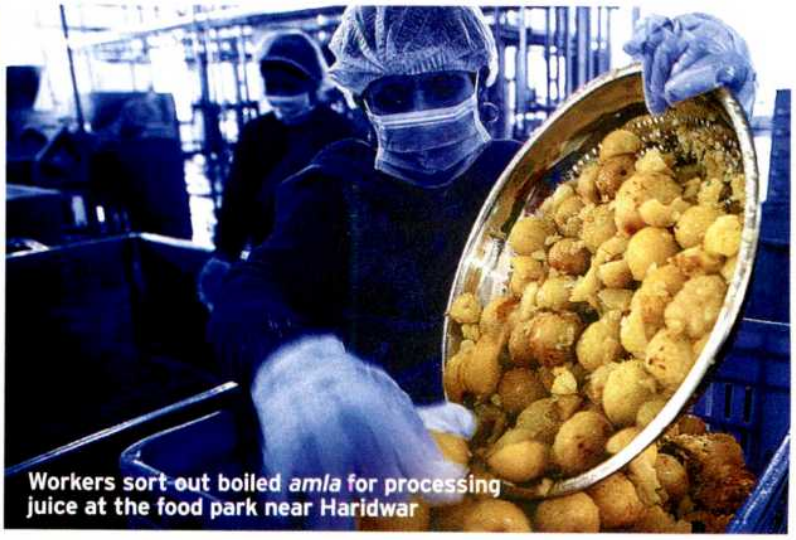

Workers pick up products from packaging line


Workers sort out boiled *amla* for processing juice at the food park near Haridwar

was missing in earlier schemes, has proved a booster. There are currently 10 mega food parks at various stages of development and operations. Patanjali Food Park is fully running, while the Srini park in Andhra Pradesh is partly functional. For the rest, SPVs have been formed and construction is on.

"There has to be involvement of the stakeholders of the SPVs in the food park for it to succeed. For their participation, they need to set up units or be involved in the activities. Until stakeholders at the SPV level set up units in the food park, the plan cannot succeed," says Balkrishna.

Kishore Biyani, MD of Pantaloons Retail (India), expects food parks to generate huge business. "We will be sourcing raw material to the tune of ₹600 crore, and these products will have a value of ₹2,500 crore when they hit the retail shelves," Biyani says.

The Future Group will have units of its subsidiaries such as Future Agrovet and Future Logistic Solutions at the Capitals food park in Karnataka. Of the 50 units that are likely to come up there, Future Group will probably set up five of its own. "Our suppliers and vendors will also set up units there. With intermediation costs and transport costs coming down, all the stakeholders — farmers, processors, retailers and even consumers — are set to gain," says Biyani.

"Until stakeholders set up units in the food parks, the parks cannot succeed"

ACHARYA BALKRISHNA, Managing Director of Patanjali Food Park

For all the players, food parks are about backward integration of their main businesses. Of the 40 units at the Haridwar park, 28 belong to Patanjali Ayurveda. This number is likely to go up to 65. These units process juices from *amla*, apple and aloe vera, corn, soyabean, barley and oats, pearl millets, or produced packaged spices and soaps.

Capital Foods, which is the majority shareholder of the food park and sells FMCG products such as noodles, and ketchup under brands such as Ching's Secret and Smith & Jones, will also be setting up its own units here.

Ozone Ayurvedics is also setting up units in the North East Mega Food Park. "We will produce organic food supplements, herbs, extracts and juices of fruits like passion, pineapple and oranges. Later on, we will be adding more health and wellness products that we will produce here," says S.C. Sehgal, Ozone group MD and Chairman.

The Patanjali Food Park expects a turnover of ₹4,500 crore once full capacity production is achieved.

Both Future Group and Patanjali Ayurved are firming up deals with modern retail and cash-and-carry chains. "Our products are available in defence and police canteens and Viva wellness stores apart from Patanjali Chikitsalayas and Sewa Kendras. In a couple of months, our products will be on the shelves of retail outlets," says C.L. Kamal, CEO of the food park.

However, even the food parks scheme has had its hiccups. For one, some shareholders have been asked to make way for others when they failed to bring in their funds in time. At Patanjali Food Park, three stakeholders will be moving out and one new one, Golden Feast, is coming in.

For now, the biggest gainers are surely the farmers like the Singhs. ◆

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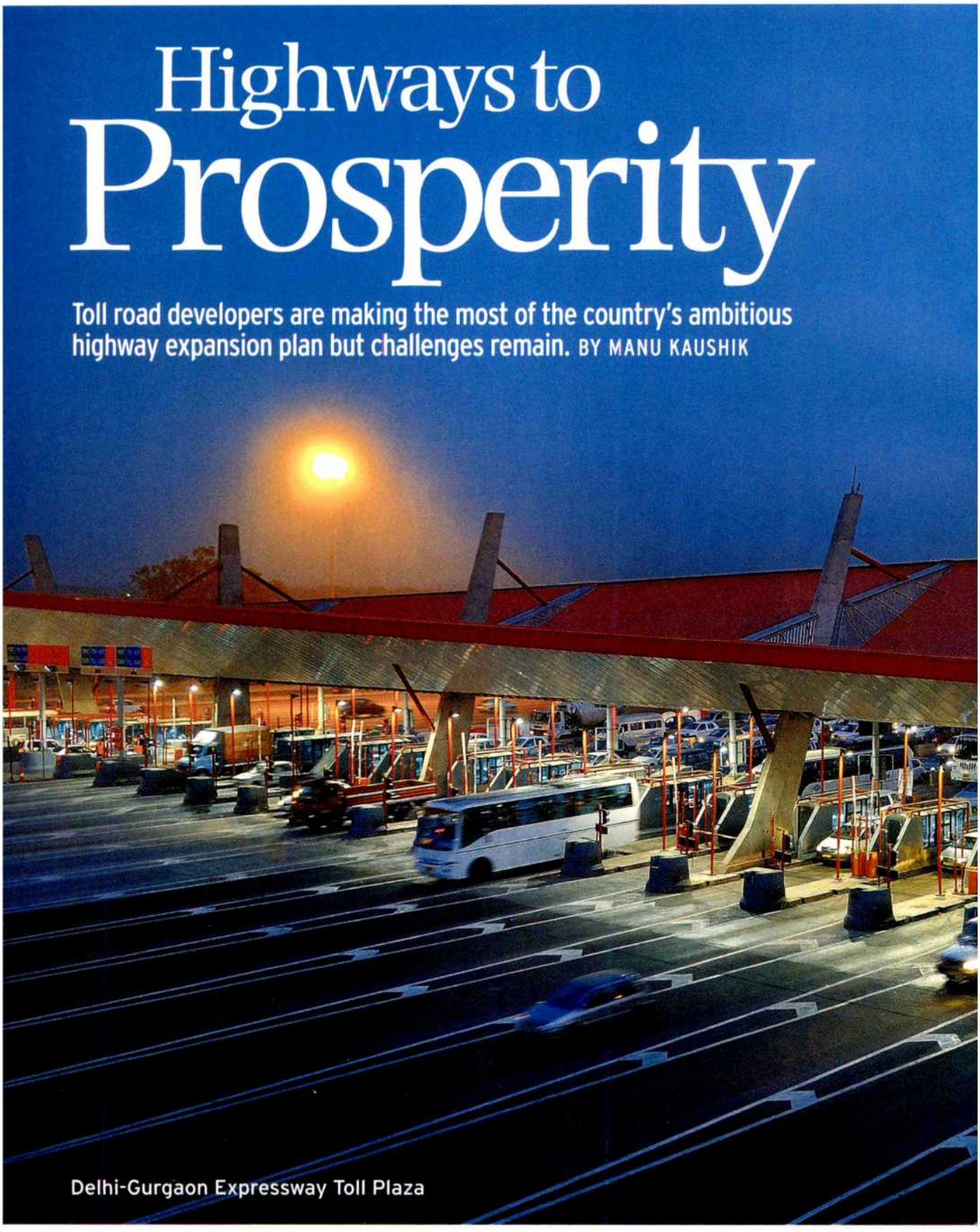
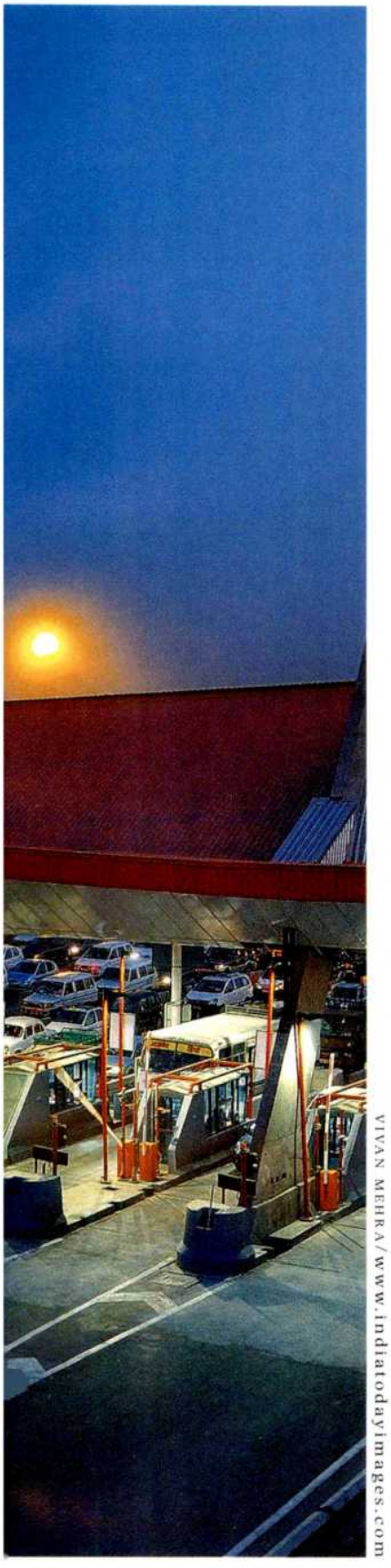
Highways to Prosperity

Toll road developers are making the most of the country's ambitious highway expansion plan but challenges remain. BY MANU KAUSHIK



Delhi-Gurgaon Expressway Toll Plaza



VIVAN MEHRA/www.indiatodayimages.com

In February 2010, the Ministry of Road Transport & Highways set up a committee headed by Nandan Nilekani, Chairman, Unique Identification Authority of India, to find ways of combating the growing pilferage of revenues at toll plazas across the country. Five months later, the committee released its report recommending that the Radio Frequency Identification, or RFID, technology be introduced to help plug the leakages.

Besides being cost-efficient, RFID ensures transparency in toll transactions, reduces traffic congestion and increases convenience for commuters. The report was accepted by the ministry with a target to kick-start the nationwide adoption of RFID by May 2012.

The setting up of the Nilekani Committee is only one of many steps being taken — some by the government and some by the private toll management industry — to combat the challenges toll plazas face. Leakages here are high. According to estimates by the ministry, for instance, the National Highway Authority of India, or NHAI, incurs an annual loss of about ₹300 crore or 15 per cent of its total toll revenue.

On the other hand, margins are moderate. "Typically, we benchmark the internal rate of return, or IRR, at around 14 per cent for Build, Operate and Transfer, or BOT, projects. But this is subject to change based on the prevailing interest rate scenario, competition and other macro factors," says Ravi Sreehari, Associate Vice President (Business Development), IL&FS Transportation Networks Ltd, or ITNL.

In a BOT project, after bagging the contract, the developer raises funds, completes the project, and operates it for a specified period which varies from 15 to 30 years, before handing it over to NHAI or the concerned state agency. During this time, he has to meet all the expenses, including debt service, maintenance and additional capital expenditure out of the toll revenue he earns. Most private players, then, are working on multiple fronts to drive top-line growth.

While toll projects were spearheaded by the NHAI and state gov-

THE TOLL INDUSTRY IS GROWING BRISKLY...

- Infrastructure companies have commissioned almost 80 PPP projects in the past decade
- Around 47,000 km of additional roads will be built under the PPP model over next few years

... BUT

- Toll revenue pilferage remains a big concern for the industry, impacting profitability
- Companies are outsourcing project management to specialised third-party vendors for efficient tolling

MONEY SHARMA

ernments for a long time, the entry of private developers and specialised toll management companies in recent years is changing the way the industry operates. There are currently 170 toll plazas on the national highways, of which 100 are run by the NHAI. The remaining 70 are operated by road developers and specialist firms under the BOT scheme.

Infrastructure companies such as IVRCL Infrastructure, HCC, IRB Infrastructure, JP Associates, ITNL, DS Construction, or DSC, and L&T Infrastructure Development Projects have commissioned around 80 public private partnership, or PPP, projects in the last decade.

ITNL, which operates six toll plazas covering an aggregate length of 3,326 lane km, collects ₹86.80 lakh daily. The company will roll out five more toll projects by 2014, which are expected to raise its daily toll revenue to ₹3.4 crore.

IRB Infrastructure also expects a quantum jump in its toll revenue as it adds six new projects soon to its existing 10. Currently, it has about 5,735 lane km under its charge, and expects to clock ₹850 crore revenue in this financial year. "We are commissioning two new projects over the next year, which will raise toll revenue to ₹1,000 crore by financial year 2012-13," says Virendra Mhaiskar, Chairman & Managing Director, IRB Infrastructure Developers.

Efficient toll collection is a crucial aspect of managing road projects. "We need to ensure that all the toll revenue is collected and toll roads and plazas are well maintained for good user experience," says Sreehari of ITNL. To plug leakages, private developers are gradually moving away from manually-operated toll booths to those that use smart cards or tag systems, which reduce manipulation and errors.

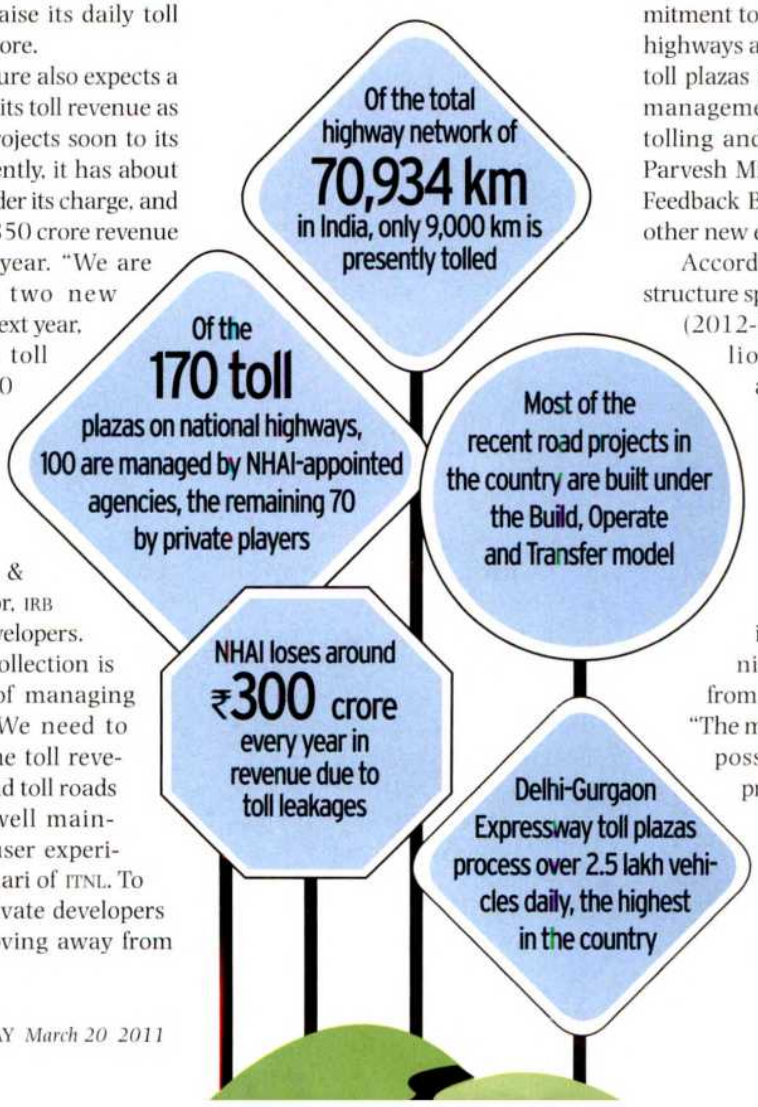
While companies like IRB and ITNL operate their own toll plazas, a new breed of operation, maintenance and tolling (OM&T) companies, which specialise in running toll plazas and maintaining roads, is also setting up shop in India. These firms claim to bring professionalism and better efficiencies to toll collection. Egis Infra Management India, or EIMI, a joint venture between France-based Egis Road Operation and DSC, was the first specialist OM&T firm to enter the market last year. "Running toll plazas and road maintenance is not a core area for concessionaries. Managing urban highways is more complex than it seems because of the large traffic volumes. By outsourcing the OM&T, the concessionaire can raise toll revenue by as much as 25 per cent," says Patrick Viellard, CEO of EIMI.

Currently, EIMI operates the country's busiest toll road — the Delhi-Gurgaon Expressway — and will be doing so till December 2015. It will manage three more projects built by DSC in the next one year. "EIMI will be bidding for tier-I (above 50,000 passenger car units) and tier-II (5,000 to 50,000 passenger car units) projects of other developers as well," says Anhad Narula, Director, DSC.

The OM&T services market is expected to rise to around ₹5,000 crore by 2016, according to Feedback Ventures, an infrastructure services firm. "We offer end-to-end services that include a commitment to reduce accidents on the highways and lower waiting time at toll plazas through superior traffic management systems, electronic tolling and better signages," says Parvesh Minocha, Vice Chairman, Feedback Brisa Highways OMT, another new entrant.

According to estimates, infrastructure spending in the 12th Plan (2012-17) could reach ₹40 trillion, with substantial amount being spent on roads. Clearly, with such an ambitious highway expansion plan on the anvil, the toll business will boom in coming years. But scaling up rapidly is crucial for the companies to stay afloat, apart from ensuring better tolling. "The mandate is to find the best possible solution for each project whether it is selection of technology providers, manpower or engaging local authorities," sums up Mhaiskar. ◆

SIGNPOSTS



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The Bug Stops Here

Insects released by an Indian Council of Agricultural Research lab are saving crops worth crores. BY K.R. BALASUBRAMANYAM

The name National Bureau of Agriculturally Important Insects is intriguing at first glance. Self-explanatory at the second. Based in Bangalore, the laboratory affiliated to the Indian Council of Agricultural Research, or ICAR, has helped farmers fight deadly pests and save crops worth crores.

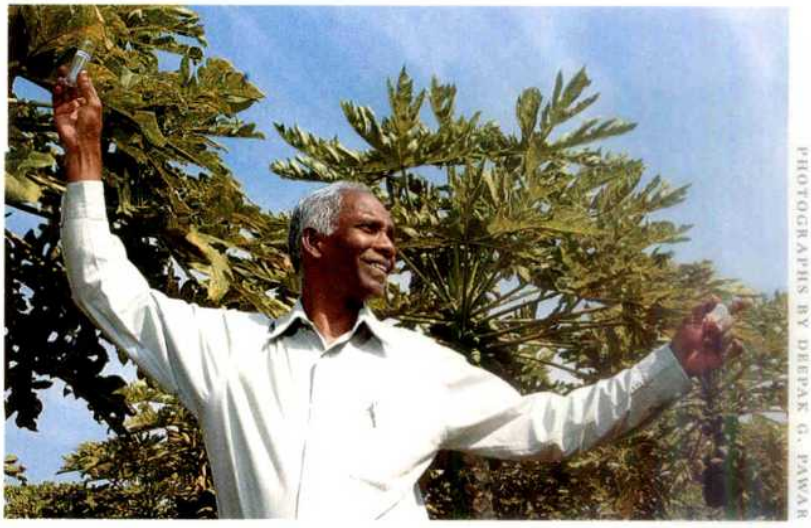
For 10 years A.M. Chinnarajan grew papaya on 15 acres of his 100-acre farm at Sathy, a fertile region 70 km north of Coimbatore in Tamil Nadu. Until 2008 he earned handsomely by selling wet latex drawn from the raw fruit to Senthil Papain, a firm that supplies the processed product, papain, to companies like Biocon, United Breweries, Colonac Breweries and some overseas ones for use in pharma, textiles, cosmetics and other industries.

Trouble began for Chinnarajan

PEST	COFFEE BERRY BORER	SPIRALLING WHITEFLY	WOOLLY APHID
CROPS DAMAGED	Coffee — both arabica and robusta	Guava, papaya, and 253 plant species	Sugarcane
YEAR IT FIRST STRUCK	1990	1994	2002
STATES AFFECTED	Karnataka, Kerala and Tamil Nadu	All India	Maharashtra, Karnataka, Andhra Pradesh
BUGS THAT KILL IT	*Cephalonomia stephanoderis, Prorops nasuta* and *Phymastichus coffea*	*Encarsia sp. nr. meritoria* and *Encarsia guadeloupe*	*Dipha aphidivora, Encarsia,* and *Micromus igorotus*
CROPS SAVED WORTH	₹50 crore	₹100 crore	₹365 crore

R.J. RABINDRA, Director, National Bureau of Agriculturally Important Insects

"Coconut leaf beetle in Myanmar and Maldives, and tapioca **mealybug in Thailand are our two immediate threats"**



PHOTOGRAPHS BY DEEPAK G. PAWAR

in mid-2008. His farm was part of the large tracts under papaya that were destroyed by *Paracoccus marginatus*, commonly known as the papaya mealybug. As the menace spread like wildfire, farmers lost hope and scaled down on papaya cultivation.

The latex sourced by Senthil Papain, for instance, dropped from 421 tonnes in 2006-07 to 162 tonnes in 2009-10 to a measly 20 tonnes in the first six months of 2010-11. "Three years ago we were extracting about 500 kg of latex a day and processing 20 tonnes a month," says company chairman O. Arumugasamy. "Since the bug attacks, our daily collection has come down to 100 to 200 kg a day, while processing has dropped to three to five tonnes a month. The fruit quality also fell, affecting the food processing industry."

Enter the insects' bureau. It imported *Acerophagous papayae*, a tiny insect or parasitoid, which was found to successfully prey on the pest, from Puerto Rico. The parasitoid worked. It helped save not only the papaya crop in Karnataka — as well as in Tripura and Andhra Pradesh — but also rubber and tapioca in Kerala, and chilli and cotton in Andhra Pradesh, all of which had been affected by the mealybug. In all, around 70 different crops are vulnerable to mealybug attacks.

Hope is in the air and slowly farmers in the region around Coimbatore are returning to papaya. "I will revive the crop on two acres first," says Chinnarajan, holding up a test tube containing the pest-fighting insect.

T.R. Thangavelu, a small farmer in the same region, who grows papaya on just one acre, had to spend

COTTON MEALYBUG

Papaya, cotton, tapioca, and 70 other plants

2005

Punjab, Haryana, Gujarat, Karnataka, Maharashtra

Aenasius bambawalei

₹500 crore

PAPAYA MEALYBUG

Papaya, cotton, tapioca, and 70 other plants

2007

Karnataka, Maharashtra, Kerala, Tamil Nadu, AP, Tripura

Acerophagous papayae, Anagyrus loecki, and *Pseudleptomastix mexicana*

₹500 crore

UNDER WATCH

PEST	CROPS HIT	COUNTRIES AFFECTED	NATURE OF DAMAGE
Aleurodicus duglasi	Several vegetables and fruit	Thailand, Mexico	**Highly invasive and widespread damage**
Phenacoccus manihoti	Tapioca, euphorbia and several others	African countries, Thailand, Myanmar	**Causes heavy damage to tapioca**
Brontispa longissima	Coconut, arecanut, oil palm, dates and other such ornamental palms	The Philippines, Maldives, Myanmar	**Expected to cause serious damage worth ₹1,600 crore if it enters India**

an additional ₹20,000 on chemical pesticides last year to save them after the mealybug attacked. But armed with the parasitoid this year he has cultivated papaya again — the plants are six months old now. "This year the insects have saved my crops," he says, adding that a good harvest will earn him about ₹1.5 lakh.

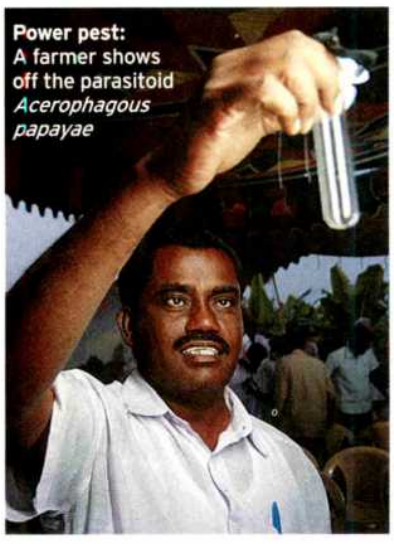
The ICAR bureau distributes the *Acerophagous papayae* free of cost through the Tamil Nadu Agricultural University or TNAU. "By using the parasitoid, these Tamil Nadu farmers will save about ₹50 crore which they would have spent on chemical pesticides," says P. Murugesa Boopathi, TNAU Vice Chancellor. "The harvest will also be free from harmful chemicals." In the past four months, his team has released 65,000 parasitoids in 300 villages in Tamil Nadu and is estimated to have saved crops worth ₹500 crore.

The *Acerophagous papayae* is one of a range of parasitoids the ICAR lab has imported and distributed in states that reported large-scale pest attacks. It is the only laboratory in India that is allowed to do so.

Tackling the pests is particularly difficult when they are alien to India and have been carried here by the wind or clinging to shipments and humans coming from abroad.

Since the papaya mealybug originated in Mexico, for instance, its deadly impact was not immediately recognised. Experts took little note of it until it started affecting the more lucrative mulberry crop too. Finally, R. Muniappan, originally from Coimbatore, an expert from Virginia Polytechnic Institute and State University, or Virginia Tech, identified it during a visit in 2008. "Classical biological control is the only long-term solution to combat the bug," he says. Muniappan is part of the pest management team from Virginia Tech which is involved in such activities worldwide.

The bureau has been involved in basic and applied research on biological control of crop pests and weeds since its inception in 1993, when it was called the Project Directorate of Biological Control. In 2005, when the woolly aphid pest hit the sugarcane crop in Maharashtra, Karnataka and Tamil Nadu, the ICAR lab acquired and distributed two parasitoids — *Dipha Aphidivora* and *Micromus Igorotus* — from Assam to combat it. "In Maharashtra alone we saved sugarcane worth about ₹365 crore," says Director R.J. Rabindra.



Power pest: A farmer shows off the parasitoid *Acerophagous papayae*

In 2007, when the gall wasp attacks on the eucalyptus tree had all but crippled the paper industry, the bureau brought in the parasitoid *Quadrastichus* from Israel to fight the pest.

"Alien pests like the *Brontispa longissima*, or leaf beetle, in Myanmar and Maldives, and the *Phenacoccus manihoti*, or tapioca mealybug, in Thailand are immediate threats that could hit our crops too," says Rabindra. Preventing their entry is impossible, so the team is working on control mechanisms. "The leaf beetle can destroy coconut, arecanut, oil palms and many other crops," says A.N. Shylesha, Principal Scientist at the bureau. The lab also trains scientists on how to breed and use the insects.

"The need to save crops from pest attacks is critical for India's food security. Grain production is growing at only 1.2 per cent per annum, while population is rising by around 1.9 per cent," says S.K. De Datta, a director at Virginia Tech. While exact data is unavailable on the quantum of loss from pest attacks on crops, either globally or in India, agricultural economist George W. Norton says every dollar invested in integrated pest management by a research consortium led by Virginia Tech has returned $20 in benefits to producers and consumers.

International food prices have touched new highs in recent times and the effects of climate change are wreaking havoc on agriculture across the world. Given the repeated warnings by the World Bank and the Food and Agriculture Organization on the possibility of global food shortage, every grain saved from pests, it seems, is worth two produced. ◆

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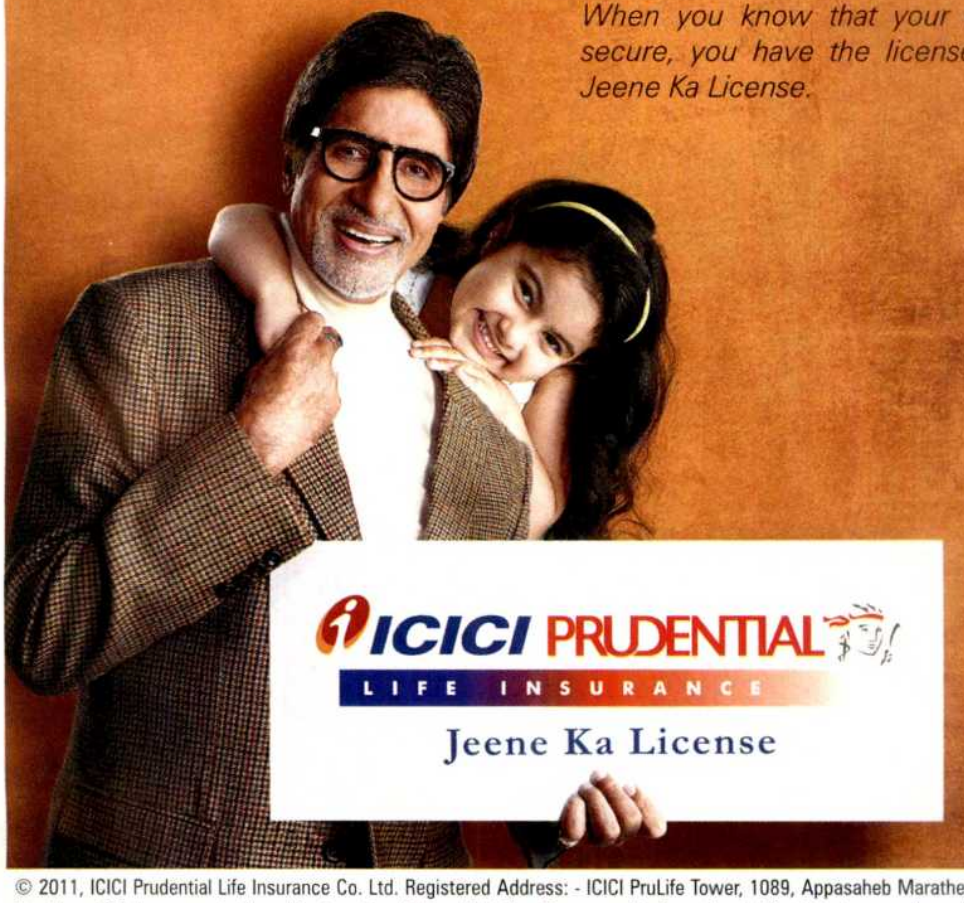

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Tee Party

Playing with India Inc.'s leading lights, lady pros from India and abroad added competitiveness and glamour to the 16th *BT*-Honda Pro-Am of Champions. **BY MERAJ SHAH**

Women who seek to be equal with men lack ambition
Timothy Leary

The lady golfers, who participated in the 16th *Business Today*-Honda Pro-Am of Champions this year, cannot be accused of lacking ambition. They not only outpaced the gentlemen golfers they played with, but showed the corporate participants a trick or two on how to play the game better. For the first time in its 16-year history, India's oldest and — till recently — only stand-alone Pro-Am shifted its focus to the Ladies Tour.

The two-day national finals, held at the Classic Golf Resort in the

Gauri Monga (amateur),
overall winner

Smriti Mehra,
joint winner in the Pro category

Walailak Satarak
finished in the top 5

Sharmila Nicollet was a part of the runners-up team

National Capital Region (after the regional legs in Bangalore, Mumbai, Kolkata and Chandigarh had been completed), marked the reinvention of the country's most popular Pro-Am. For the first time, 16 lady professional golfers (eight from home and eight others from Thailand, Canada, the US, Germany and Dubai) and another eight lady amateurs teed it up with over 130 corporate movers and shakers for what is now the most lucrative tournament (excepting the flagship Women's Indian Open) on the women's professional circuit with a total purse of $20,000.

Going by the tremendous response, the ladies made the most of the opportunity to establish their presence. "It is the first time that we are playing with women pros and this is nice and different. I am surprised by just how well they hit the ball," said self-confessed golf addict Vijay Chauhan, Chief Managing Director, Parle Products, adding, tongue in cheek, that he has more fun playing now that "Parle has overtaken Britannia in business".

Anil Mehra, Managing Director, The India Today Group, revealed that the move to bring in lady golfers was aimed at supporting the fledgling women's golf tour in India. "We have done our bit for the gentlemen golfers. Most of India's successful (gentlemen) golfers — Ali Sher, Rohtas Singh, Mukesh Kumar, and more recently S.S.P. Chowrasia, Gaganjeet Bhullar, Anirban Lahiri, Ashok Kumar and C. Muniyappa, have participated in the BT Pro-Am and are now well established. Now *Business Today* and Honda have decided to register another first: support Indian lady golfers and create a unique event where top Indian lady professionals and amateurs play with a field of international lady golfers, together with India's business leaders. Our endeavour is to create champion women golf-

Ashish Bharat Ram, MD, SRF Ltd, won the overall closest to pin on day 2

Rajesh Sud, CEO, Max New York Life, teeing off

Tatsuya Natsume (centre), Director, Marketing, Honda Siel Cars India, with members of the winning team

Rekha Purie (third from right), Chairperson, Vasant Valley School, with members of the runners-up team

ers who will put India on the world map," he added.

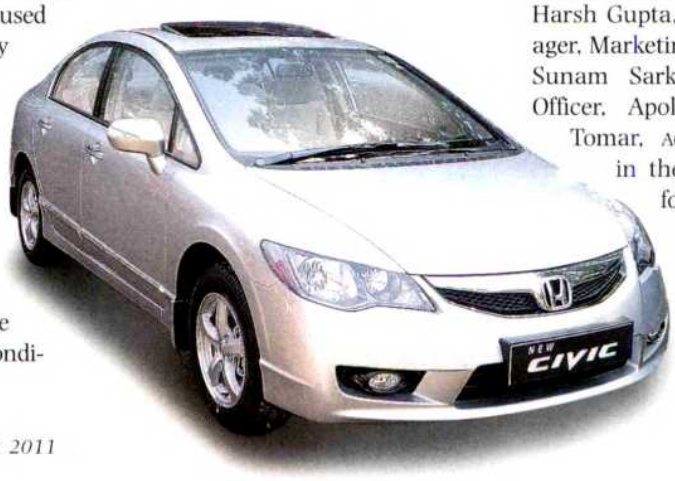
Tatsuya Natsume, Director, Marketing, Honda Siel Cars India, said the association with women golfers was perfectly timed for his company. "All golfers are potential buyers of Honda cars. It is nice to generate product knowledge through this game. Here we are associating with women golfers because we want more women buyers for our upcoming small car, the Brio," he said.

Playing with the ladies also had an unprecedented effect on the level of competitiveness. "We can match their (lady pros') driving so I think it makes us feel that we actually have a chance competing against them. The men (pros) would hit it so much further than us that it used to be difficult to give them any sort of competition," said Rahul Khanna of Cleveland Golf, who played with 2010-11 Order of Merit leader Sharmila Nicollet on the first day. Nicollet, one of the longest drivers amongst the pros (she averages 275 to 280 yards off the tee), was delighted with the conditions at the Classic Golf Resort. "The course is in fabulous shape. As long as you can drive it well, there are plenty of opportunities for making birdies out there," said the statuesque pro from Bangalore.

Even though a massive traffic snarl on the Jaipur highway delayed the tee-off by a couple of hours on the first day, the participants got into the swing of things in no time.

Harinder Sikka, Director, Corporate Affairs, Piramal Healthcare, and a consummate golfer, could not have been happier. "I play twice a week. This not only helps in making friends but also in understanding whom to keep a distance from," said Sikka ominously. On the other hand, Gautam Bhandari, Managing Director, Morgan Stanley, enjoyed a rare day on the course. "These days I barely get to play golf, but this is refreshing. I am playing the first round this year and the season is almost towards its end."

A new **Honda Civic** on display at the event



Also seen in action were Shubhodip Pal, Country Head, Blyk India; Ashish Bharat Ram, Managing Director, SRF Ltd; Sunil Dutt, Country Head, HP; Rajesh Sud, CEO, Max New York Life; and Niraj Singh, COO, Vodafone.

In the end, it was the six-handicapper from the Delhi Golf Club, Millie Saroha, who guided a high-powered fourball comprising Harsh Gupta, Chief General Manager, Marketing, Solaris Chemtech; Sunam Sarkar, Chief Financial Officer, Apollo Tyres; and S.K. Tomar, ACP, Delhi to victory in the team event with a formidable tally of 115 points. The long-hitting Nicollet teamed up with Gen. (Retd.) K.M.S. Shergill, Executive

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Aroon Purie (centre), Chairman & Editor-in-Chief, The India Today Group, with **Elisabeth Esterl** (left) and **Smriti Mehra**, joint winners in the Pro category

The **professional** and **amateur lady golfers** at the awards dinner

Anil Mehra (left), MD, India Today Group, with **Koji Sugimoto,** who won closest to pin on day 2

Anil Mehra (left) with **Sandeep Garg,** CEO, Santina Enterprises, who was the overall winner of straightest drive on day 1

Director, First Circle Financial Services; Rahul Maroli, General Manager, Commercial Lease Plan; and H.S. Chadha of Ritco Group to finish a close second, with a team total of 114 points.

No one in the field could match amateur Gauri Monga, who won the event on the back of a stupendous four-under 68 on the first day, which was the lowest round of the tournament and propelled the 17-year-old to a two-day total of three-under-par 141. Her performance underscored the quality of play amongst the top amateurs, who have been giving the pros a run for their money. In this case it was even better: veteran Smriti Mehra and Elisabeth Esterl from Germany finished tied at the top of the pro leaderboard with identical scores of one-over 145 over two days. Akriti Singh with a score of two-over 146 shared overall third place with Thai pro Ajira Nualraksa.

The *BT*-Honda Pro-Am of Champions 2011 came to a close with a glamorous evening at the Hotel Grand in the capital, which seemed more like a Page Three gathering rather than a golf tournament awards dinner — with the lady golfers shedding their golf garb for dazzling evening wear. Aroon Purie, Chairman & Editor-in-Chief, The India Today Group; Rekha Purie, Chairperson, Vasant Valley School; Honda Siel's Natsume; and The India Today Group's MD Mehra gave away the prizes to the winners.

By deciding to partner with the Women's Golf Association of India (WGAI), the tournament title sponsor *Business Today* and co-title sponsor Honda Siel Cars India have again created a unique brand identity for the *BT* Pro-Am of Champions differentiating it from other corporate golf events in the country.

Religare Enterprises was equally steadfast in its support as associate sponsor for the tourney. Cleveland Golf continued its relationship as equipment partner, while United Spirits, as liquor partners, kept everyone's spirits high. *Golf Digest India* was the official magazine for the tourney, which was supported and accredited by the WGAI. ◆

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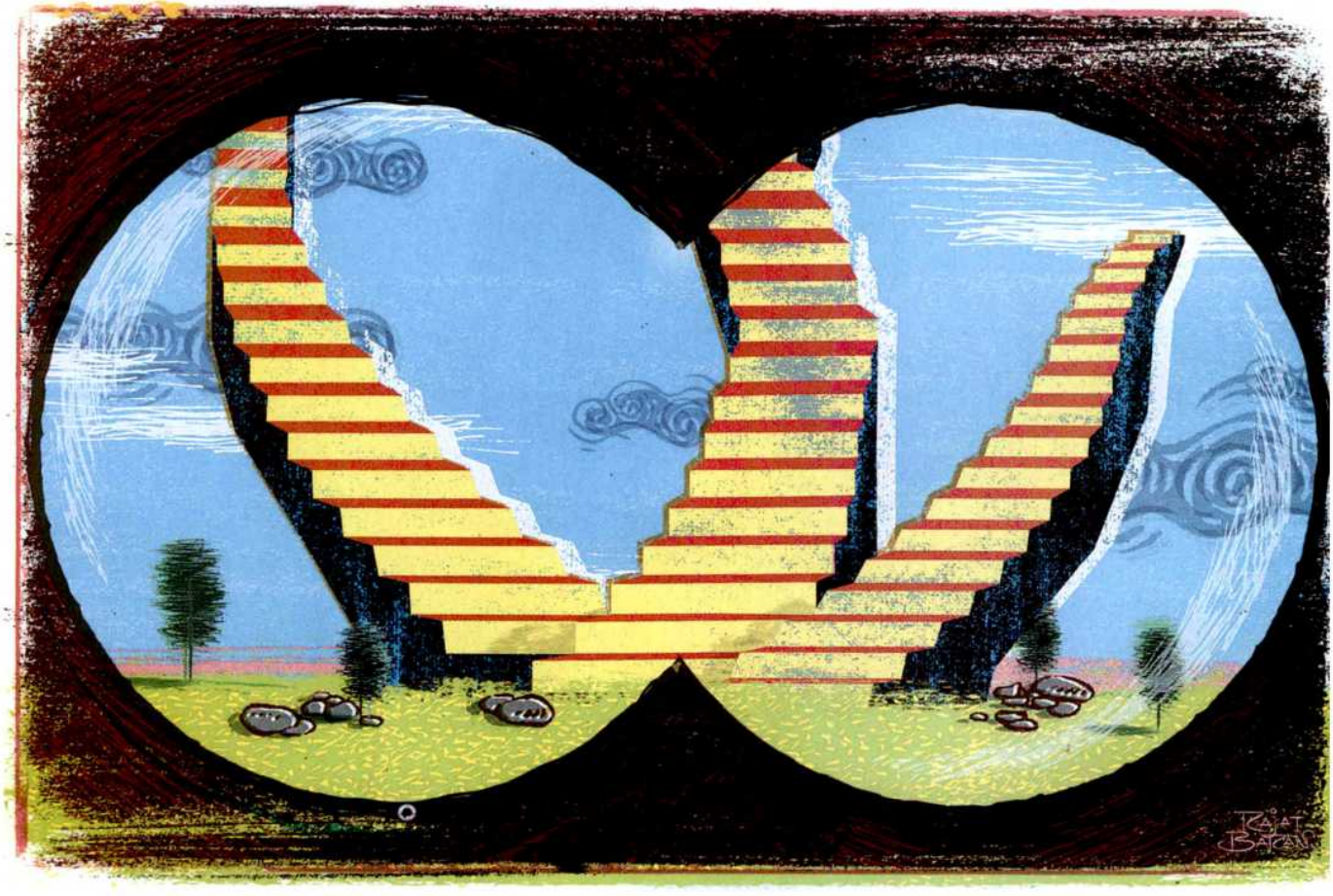
How Will You Measure Your Life?

Don't reserve your best business thinking for your career.

BY CLAYTON M. CHRISTENSEN



EDITOR'S NOTE: *When the members of the class of 2010 entered business school, the economy was strong and their post-graduation ambitions could be limitless. Just a few weeks later, the economy went into a tailspin. They spent the next two years recalibrating their worldview and their definition of success. The students became highly aware of how the world has changed (as the sampling of views in this article shows). In spring 2010, Harvard Business School's graduating class asked* HBS *professor Clay Christensen to address them — but not on how to apply his principles and thinking to their post-*HBS *careers. The students wanted to know how to apply them to their personal lives. He shared with them a set of guidelines that have helped him find meaning in his own life. Though Christensen's thinking comes from his deep religious faith, we believe that these are strategies anyone can use. And so we asked him to share them with the readers of* HBR.

Clayton M. Christensen

Before I published *The Innovator's Dilemma*, I got a call from Andrew Grove, then the chairman of Intel. He had read one of my early papers about disruptive technology, and he asked if I could talk to his direct reports and explain my research and what it implied for Intel. Excited, I flew to Silicon Valley and showed up at the appointed time, only to have Grove say, "Look, stuff has happened. We have only 10 minutes for you. Tell us what your model of disruption means for Intel." I said that I couldn't — that I needed a full 30 minutes to explain the model, because only with it as context would any comments about Intel make sense. Ten minutes into my explanation, Grove interrupted: "Look, I've got your model. Just tell us what it means for Intel."

I insisted that I needed 10 more minutes to describe how the process of disruption had worked its way through a very different industry, steel, so that he and his team could understand how disruption worked. I told the story of how Nucor and other steel minimills had begun by attacking the lowest end of the market — steel reinforcing bars, or rebar — and later moved up toward the high end, undercutting the traditional steel mills.

When I finished the minimill story, Grove said, "OK, I get it. What it means for Intel is...," and then went on to articulate what would become the company's strategy for going to the bottom of the market to launch the Celeron processor.

I've thought about that a million times since. If I had been suckered into telling Andy Grove what he should think about the microprocessor business, I'd have been killed. But instead of telling him what to think, I taught him how to think — and then he reached what I felt was the correct decision on his own.

That experience had a profound influence on me. When people ask what I think they should do, I rarely answer their question directly. Instead, I run the question aloud through one of my models. I'll describe how the process in the model worked its way through an industry quite different from their own. And then, more often than not, they'll say, "OK, I get it." And they'll answer their own question more insightfully than I could have.

My class at Harvard Business School, or HBS, is structured to help my students understand what good management theory is and how it is built. To that backbone I attach different models or theories that help students think about the various dimensions of a general manager's job in stimulating innovation and growth. In each session we look at one company through the lenses of those theories — using them to explain how the company got into its situation and to examine what managerial actions will yield the needed results.

Doing deals doesn't yield the deep rewards that come from building up people

On the last day of class, I ask my students to turn those theoretical lenses on themselves, to find cogent answers to three questions: First, how can I be sure that I'll be happy in my career? Second, how can I

"I came to business school knowing exactly what I wanted to do – and I'm leaving choosing the exact opposite. I've worked in the private sector all my life, because everyone always told me that's where smart people are. But I've decided to try government and see if I can find more meaning there.

"I used to think that industry was very safe. The recession has shown us that nothing is safe."

RUHANA HAFIZ
Harvard Business School
Class of 2010

HER PLANS: To join the FBI as a special adviser (a management track position)

be sure that my relationships with my spouse and my family become an enduring source of happiness? Third, how can I be sure I'll stay out of jail? Though the last question sounds lighthearted, it's not. Two of the 32 people in my Rhodes scholar class spent time in jail. Jeff Skilling of Enron fame was a classmate of mine at HBS. These were good guys — but something in their lives sent them off in the wrong direction.

As the students discuss the answers to these questions, I open my own life to them as a case study of sorts, to illustrate how they can use the theories from our course to guide their life decisions.

One of the theories that gives great insight on the first question — how to be sure we find happiness in our careers — is from Frederick Herzberg, who asserts that the powerful motivator in our lives isn't money; it's the opportunity to learn, grow in responsibilities, contribute to others, and be recognised for achievements. I tell the students about a vision of sorts I had while I was running the company I founded before becoming an academic. In my mind's eye, I saw one of my managers leave for work one morning with a relatively strong level of self-esteem. Then I pictured her driving home to her family 10 hours later, feeling unappreciated, frustrated, underutilised, and demeaned. I imagined how profoundly her lowered self-esteem affected the way she interacted with her children. The vision in my mind then fast-forwarded to another day, when she drove home with greater self-esteem — feeling that she had learned a lot, been recognised for achieving valuable things, and played a significant role in the success of some important initiatives. I then imagined how positively that affected her as a spouse and a parent. My conclusion: Management is the most noble of professions if it's practised well. No other occupation offers as many ways to help others learn and grow, take responsibility and be recognised for achievement, and contribute to the success of a team. More and more MBA students come to school thinking that a career in business means buying, selling, and investing in companies. That's unfortunate. Doing deals doesn't yield the deep rewards that come from building up people.

I want students to leave my classroom knowing that.

Create a Strategy for Your Life

A theory that is helpful in answering the second question — How can I ensure that my relationship with my family proves to be an enduring source of happiness? — concerns how strategy is defined and implemented. Its primary insight is that a company's strategy is determined by the types of initiatives that management invests in. If a company's resource allocation process is not managed masterfully, what emerges from it can be very different from what management intended. Because companies' decision-making systems are designed to steer investments to initiatives that offer the most tangible and immediate returns, companies shortchange investments in initiatives that are crucial to their long-term strategies.

Over the years, I have watched the fates of my HBS classmates from 1979 unfold; I've seen more and more of them come to reunions unhappy, divorced, and alienated from their children. I can guarantee you that not a single one of them graduated with the deliberate strategy of getting divorced and raising children who would become estranged from them. And yet a shocking number of them implemented that strategy. The reason? They didn't keep the purpose of their lives front and centre as they decided how to spend their time, talents, and energy.

It's quite startling that a significant fraction of the 900 students that HBS draws each year from the world's best have given little thought to the purpose of their lives. I tell the students that HBS might be one of their last chances to reflect deeply on that question. If they think that they'll have more time and energy to reflect later, they're nuts, because life only gets more demanding: You take on a mortgage; you're working 70 hours a week; you have a spouse and children.

For me, having a clear purpose in my life has been essential. But it was something I had to think long and hard about before I understood it. When I was a Rhodes scholar, I was in a very demanding academic programme, trying to cram an extra year's worth of work into my time at Oxford. I decided to spend an hour every night reading, thinking and praying about why God put me on this earth. That was a very challenging commitment to keep, be-

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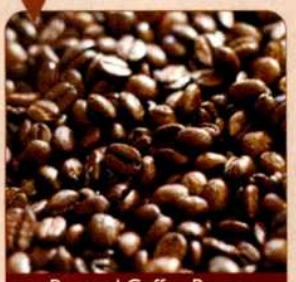

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PATRICK CHUN
Harvard Business School
Class of 2010

HIS PLANS: To join Bain Capital

cause every hour I spent doing that, I wasn't studying applied econometrics. I was conflicted about whether I could really afford to take that time away from my studies, but I stuck with it — and ultimately figured out the purpose of my life.

Had I instead spent that hour each day learning the latest techniques for mastering the problems of autocorrelation in regression analysis, I would have badly misspent my life. I apply the tools of econometrics a few times a year, but I apply my knowledge of the purpose of my life every day. It's the single most useful thing I've ever learned. I promise my students that if they take the time to figure out their life purpose, they'll look back on it as the most important thing they discovered at HBS. If they don't figure it out, they will just sail off without a rudder and get buffeted in the very rough seas of life. Clarity about their purpose will trump knowledge of activity-based costing, balanced scorecards, core competence, disruptive innovation, the four Ps, and the five forces.

My purpose grew out of my religious faith, but faith isn't the only thing that gives people direction. For example, one of my former students decided that his purpose was to bring honesty and economic prosperity to his country and to raise children who were as capably committed to this cause, and to each other, as he was. His purpose is focused on family and others — as mine is.

The choice and successful pursuit of a profession is but one tool for achieving your purpose. But without a purpose, life can become hollow.

Allocate Your Resources

Your decisions about allocating your personal time, energy, and talent ultimately shape your life's strategy.

I have a bunch of "businesses" that compete for these resources: I'm trying to have a rewarding relationship with my wife, raise great kids, contribute to my community, succeed in my career, contribute to my church, and so on. And I have exactly the same problem that a corporation does. I have a limited amount of time and energy and talent. How much do I devote to each of these pursuits?

Allocation choices can make your life turn out to be very different from what you intended. Sometimes that's good: Opportunities that you never planned for emerge. But if you misinvest your resources, the outcome can be bad. As I think about my former classmates who inadvertently invested for lives of hollow unhappiness, I can't help believing that their troubles relate right back to a short-term perspective.

When people who have a high need for achievement — and that includes all HBS graduates — have an extra half hour of time or an extra ounce of energy, they'll unconsciously allocate it to activities that yield the most tangible accomplishments. And our careers provide the most concrete evidence that we're moving forward. You ship a product, finish a design, complete a presentation, close a sale, teach a class, publish a paper, get paid, get promoted.

In contrast, investing time and energy in your relationship with your spouse and children typically doesn't offer that same immediate sense of achievement. Kids misbehave every day. It's really not until 20 years down the road that you can put your hands on your hips and say, "I raised a good son or a good daughter." You can neglect your relationship with your spouse, and on a day-to-day basis, it doesn't seem as if things are deteriorating. People who are driven to excel have this unconscious propensity to underinvest in their families and overinvest in their careers — even though intimate and loving relationships with their families are the most powerful and enduring source of happiness.

If you study the root causes of business disasters, over and over you'll find this predisposition toward endeavours that offer immediate gratification. If you look at personal lives through that lens, you'll see the same stunning and sobering pattern: people allocating fewer and fewer resources to the things they would have once said mattered most.

Create a Culture

There's an important model in our class called the Tools of Cooperation, which basically says that being a visionary manager isn't all it's cracked up to be. It's one thing to see into the foggy future with acuity and chart the course corrections that the company must make. But it's quite another to persuade employees who might not see the changes ahead to line up and work cooperatively to take the company in that new

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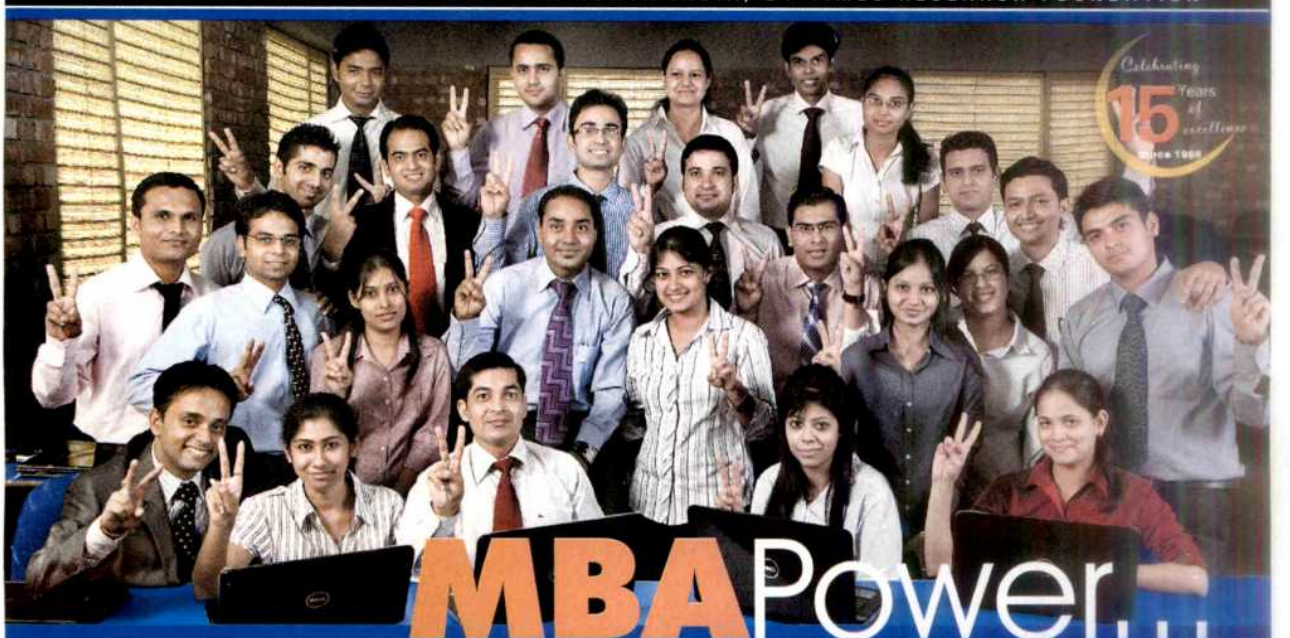

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"The financial crisis helped me realise that you have to do what you really love in life. My current vision of success is based on the impact I can have, the experiences I can gain, and the happiness I can find personally, much more so than the pursuit of money or prestige. My main motivations are (1) to be with my family and people I care about; (2) to do something fun, exciting, and impactful; and (3) to pursue a long-term career in entrepreneurship, where I can build companies that change the way the world works."

MATT SALZBERG
Harvard Business School
Class of 2010

HIS PLANS: To work for Bessemer Venture Partners

direction. Knowing what tools to wield to elicit the needed cooperation is a critical managerial skill.

The theory arrays these tools along two dimensions — the extent to which members of the organisation agree on what they want from their participation in the enterprise, and the extent to which they agree on what actions will produce the desired results. When there is little agreement on both axes, you have to use "power tools" — coercion, threats, punishment, and so on — to secure cooperation. Many companies start in this quadrant, which is why the founding executive team must play such an assertive role in defining what must be done and how. If employees' ways of working together to address those tasks succeed over and over, consensus begins to form. Massachusetts Institute of Technology's, or MIT, Edgar Schein has described this process as the mechanism by which a culture is built. Ultimately, people don't even think about whether their way of doing things yields success. They embrace priorities and follow procedures by instinct and assumption rather than by explicit decision — which means that they've created a culture. Culture, in compelling but unspoken ways, dictates the proven, acceptable methods by which members of the group address recurrent problems. And culture defines the priority given to different types of problems. It can be a powerful management tool.

In using this model to address the question, How can I be sure that my family becomes an enduring source of happiness?, my students quickly see that the simplest tools that parents can wield to elicit cooperation from children are power tools. But there comes a point during the teen years when power tools no longer work. At that point parents start wishing that they had begun working with their children at a very young age to build a culture at home in which children instinctively behave respectfully toward one another, obey their parents, and choose the right thing to do. Families have cultures, just as companies do. Those cultures can be built consciously or evolve inadvertently.

If you want your kids to have strong self-esteem and confidence that they can solve hard problems, those qualities won't magically materialise in high school. You have to design them into your family's culture — and you have to think about this very early on. Like employees, children build self-esteem by doing things that are hard and learning what works.

Avoid the "Marginal Costs" Mistake

We're taught in finance and economics that in evaluating alternative investments, we should ignore sunk and fixed costs, and instead base decisions on the marginal costs and marginal revenues that each alternative entails. We learn in our course that this doctrine biases companies to leverage what they have put in place to succeed in the past, instead of guiding them to create the capabilities they'll need in the future. If we knew the future would be exactly the same as the past, that approach would be fine. But if the future's different — and it almost always is — then it's the wrong thing to do.

This theory addresses the third question I discuss with my students — how to live a life of integrity (stay out of jail). Unconsciously, we often employ the marginal cost doctrine in our personal lives when we choose between right and wrong. A voice in our head says, "Look, I know that as a general rule, most people shouldn't do this. But in this particular extenuating circumstance, just this once, it's OK." The marginal cost of doing something wrong "just this once" always seems alluringly low. It suckers you in, and you don't ever look at where that path ultimately is headed and at the full costs that the choice entails. Justification for infidelity and dishonesty in all their manifestations lies in the marginal cost economics of "just this once."

I'd like to share a story about how I came to understand the potential damage of "just this once" in my own life. I played on the Oxford University varsity basketball team. We worked our tails off and finished the season undefeated. The guys on the team were the best friends I've ever had in my life. We got to the British equivalent of the NCAA tournament — and made it to the final four. It turned out the championship game was scheduled to be played on a Sunday. I had made a personal commitment to God at age 16 that I would never play ball on Sunday. So I went to the coach

To touch people's hearts, I just added a bit of Australia.

Sydney Harbour Bridge and Opera House

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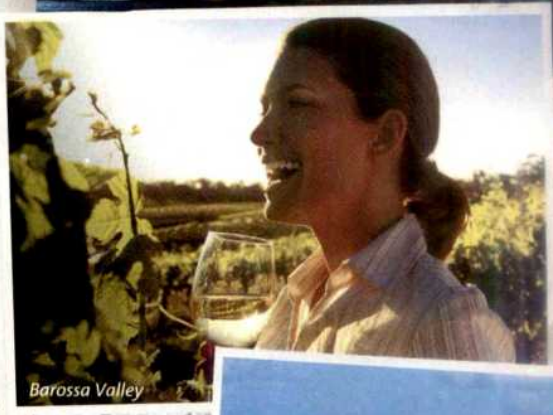


Barossa Valley

12 Apostles

I travelled around the world looking for a place where all of life's flavours could be found. Australia served me with a platter that overwhelmed me even as a chef. Its exotic sights and smells enticed me, its wilderness and spirit of adventure opened my mind, its modern marvels added wonder and its ancient mysticism gripped my soul. But above all, its people gave me a place in their hearts. Thanks to Australia, my recipes now charm more than just people's taste buds.

Australia.com

"Because I'm returning to McKinsey, it probably seems like not all that much has changed for me. But while I was at HBS, I decided to do the dual degree at the Kennedy School. With the elections in 2008 and the economy looking shaky, it seemed more compelling for me to get a better understanding of the public and nonprofit sectors. In a way, that drove my return to McKinsey, where I'll have the ability to explore private, public, and nonprofit sectors. "The recession has made us step back and take stock of how lucky we are. The crisis to us is 'Are we going to have a job by April?' Crisis to a lot of people is 'Are we going to stay in our home?'"

JOHN COLEMAN
Harvard Business School
Class of 2010

HIS PLANS: To return to McKinsey & Company

and explained my problem. He was incredulous. My teammates were, too, because I was the starting centre. Every one of the guys on the team came to me and said, "You've got to play. Can't you break the rule just this one time?"

I'm a deeply religious man, so I went away and prayed about what I should do. I got a very clear feeling that I shouldn't break my commitment — so I didn't play in the championship game.

In many ways that was a small decision — involving one of several thousand Sundays in my life. In theory, surely I could have crossed over the line just that one time and then not done it again. But looking back on it, resisting the temptation whose logic was "In this extenuating circumstance, just this once, it's OK" has proven to be one of the most important decisions of my life. Why? My life has been one unending stream of extenuating circumstances. Had I crossed the line that one time, I would have done it over and over in the years that followed.

The lesson I learned from this is that it's easier to hold to your principles 100 per cent of the time than it is to hold to them 98 per cent of the time. If you give in to "just this once," based on a marginal cost analysis, as some of my former classmates have done, you'll regret where you end up. You've got to define for yourself what you stand for and draw the line in a safe place.

Remember the Importance of Humility

I got this insight when I was asked to teach a class on humility at Harvard College. I asked all the students to describe the most humble person they knew. One characteristic of these humble people stood out: They had a high level of self-esteem. They knew who they were, and they felt good about who they were. We also decided that humility was defined not by self-deprecating behaviour or attitudes but by the esteem with which you regard others. Good behaviour flows naturally from that kind of humility. For example, you would never steal from someone, because you respect that person too much. You'd never lie to someone, either.

It's crucial to take a sense of humility into the world. By the time you make it to a top graduate school, almost all your learning has come from people who are smarter and more experienced than you: parents, teachers, bosses. But once you've finished at HBS or any other top academic institution, the vast majority of people you'll interact with on a day-to-day basis may not be smarter than you. And if your attitude is that only smarter people have something to teach you, your learning opportunities will be very limited. But if you have a humble eagerness to learn something from everybody, your learning opportunities will be unlimited. Generally, you can be humble only if you feel really good about yourself — and you want to help those around you feel really good about themselves, too. When we see people acting in an abusive, arrogant, or demeaning manner toward others, their behaviour almost always is a symptom of their lack of self-esteem. They need to put someone else down to feel good about themselves.

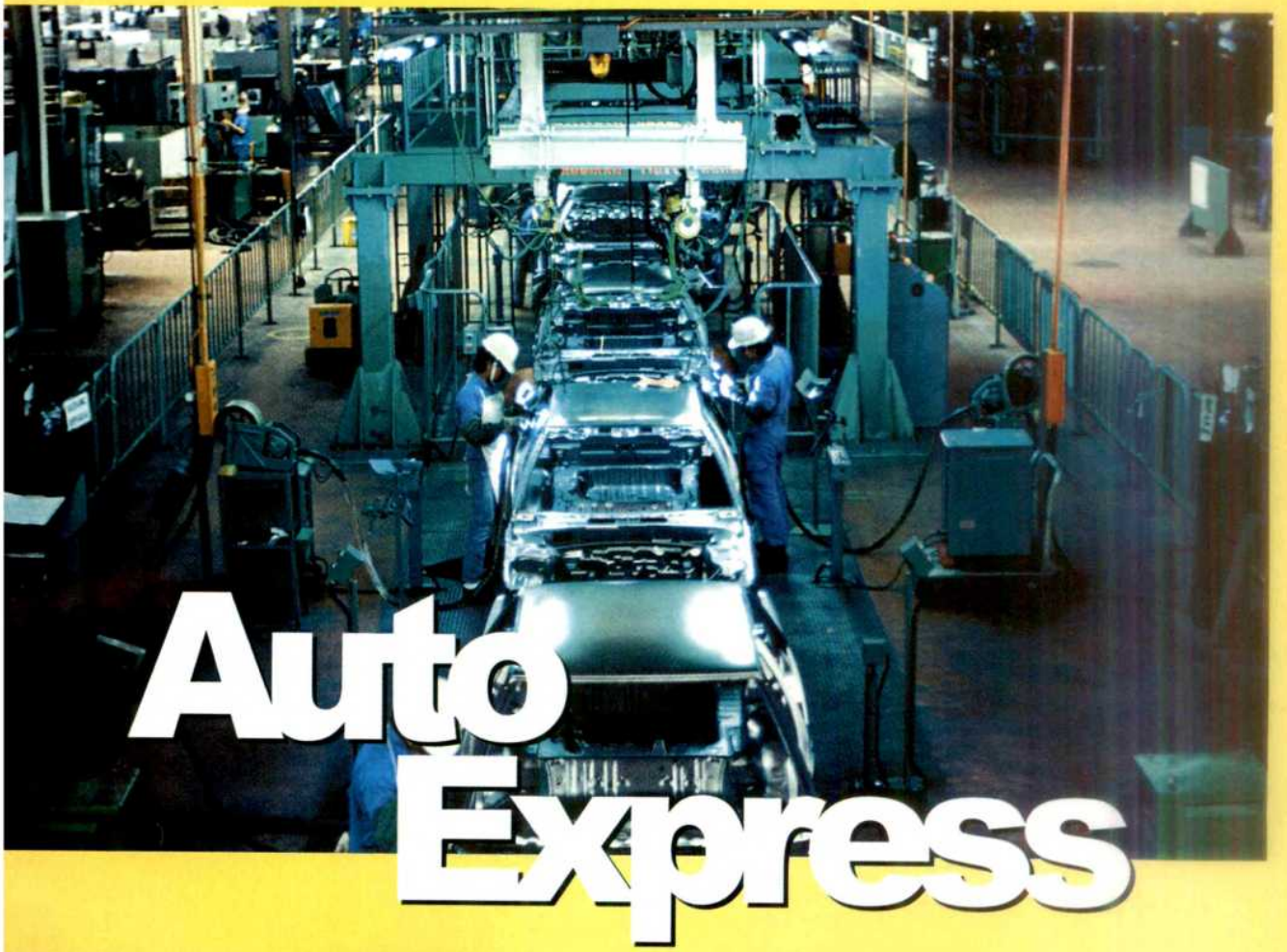
Choose the Right Yardstick

This past year I was diagnosed with cancer and faced the possibility that my life would end sooner than I'd planned. Thankfully, it now looks as if I'll be spared. But the experience has given me important insight into my life.

I have a pretty clear idea of how my ideas have generated enormous revenue for companies that have used my research: I know I've had a substantial impact. But as I have confronted this disease, it's been interesting to see how unimportant that impact is to me now. I've concluded that the metric by which God will assess my life isn't dollars but the individual people whose lives I've touched.

I think that's the way it will work for us all. Don't worry about the level of individual prominence you have achieved; worry about the individuals you have helped become better people. This is my final recommendation: Think about the metric by which your life will be judged, and make a resolution to live every day so that in the end, your life will be judged a success. ◆

Clayton M. Christensen *is the Robert and Jane Cizik Professor of Business Administration at Harvard Business School.* *This article was published in* Harvard Business Review, *July-August 2010. Copyright@2010 Harvard Business School Publishing Corporation. All rights reserved.*



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Looking Beyond Borders

Buoyed by liquidity, global funds have beaten domestic ones over the past six months. The rally is expected to continue, especially for commodity funds. BY TANVI VERMA

If you had invested in funds focused on global markets instead of Indian equity markets in the past few months, you may have pocketed better returns. "Of late, our domestic markets have been gripped by issues such as scams in banking and real estate loans, inflation etc., that have hurt sentiments," says Mahesh Patil, Head, Equity — Domestic Assets, Birla Sun Life Mutual Fund. During this period, some positive surprises have flown in from global markets. "The US government's quantitative easing programme has injected a lot of liquidity into the system, which has moved up prices of real assets, be it commodities or equities," says Gopal Agrawal, Deputy Chief Information Officer and Head, Equity, Mirae Asset Global Investments (India). Global equity funds have returned between 7.5 per cent and 28 per cent over the past six months (*See Global Funds Race Ahead*), with a category average of about 18 per cent. This is huge compared to the 6 per cent returned by the BSE Sensex and 3.5 per cent by the average Indian diversified equity fund. However, the China-dedicated funds have not done so well, Patil says.

RAJAT BARAN

The Commodity Boom

The top five global funds that gave returns of over 20 per cent were all from the commodity space, with the ING OptiMix Global Commodities fund at the top. "This performance can be attributed to the strengthening of commodity prices. Commodities will continue to do well in the high inflationary scenario, except if global growth derails," explains Arvind Bansal, Vice President

& Head — Multi-manager investments, ING Investment Management India. Birla Sun Life Commodity Equities Fund — Global Agri Plan almost matched ING OptiMix's performance. Patil attributed the fund's stellar show to its focus on companies that directly benefited from higher commodity prices. Exxon Mobil, Monsanto Company and Barrick Gold Corporation were among the fund's favourites. In the past quarter, commodities such as aluminium, copper and silver appreciated by about 20 per cent, while the agricultural index ran up by about 31 per cent.

Analysts are expecting the commodity boom to continue in 2011 as well. And the best way to cash in on this opportunity is to invest in global stocks since those provide the maximum leverage to rising commodity prices unlike Indian companies. For instance, in India there are hardly any listed copper companies except firms like Hindustan Copper in which the government owns a 99 per cent stake.

Going forward, with no signs of inflation coming down, Indian stocks are not expected to give great returns over the next six months. Fund managers advise investors to allocate up to 10 per cent of their portfolio to such funds. But here is a word of caution. Most analysts warn that investments in commodity funds should not be for more than a year, since these trends are prone to quick changes. And they also say it makes more sense to invest in multi-commodity funds, since they not only benefit from global economic growth but also have the diversification advantage.

Global Funds Race Ahead

Fund Name	RETURNS (%) 1-month	3-month	6-month	1-year
ING OptiMix Global Commodities	1.15	11.20	28.48	16.57
Birla Sun Life Commodity Equities – Global Agri Plan	3.14	9.52	28.21	19.87
DSPBR World Mining Reg	-1.30	12.60	26.15	24.51
Birla Sun Life Commodity Equities – Global Multi Commodity	0.73	13.71	25.00	17.73
DSPBR World Energy Reg	3.74	17.62	23.25	13.55

Assets are in ₹'000 crore, folio numbers in '000

Source: AMFI

Diversified Option

For long-term investors, diversified international equity funds could also hold value. Birla Sun Life's International Equity Plan, for instance, has returned 12 per cent in the past one year. It may not be the best among its peers but it has relatively lower exposure to volatile investments — 40 per cent in US companies.

According to Rajeev Thakkar, Chief Executive Officer, Parag Parikh Financial Advisory Services, first timers should start by investing in the US markets with the Standard & Poor's (S&P) 500 Exchange Traded Fund, or ETF. The fund has a range of companies that offers stocks by way of American Depository Receipts. For the stock-savvy investor, Thakkar recommends individual stocks, since many scrips on the ETF may be risky. Also, with the US firms posting good numbers, and the S&P 500 already trading at 13,500 levels, the upside from here on may be limited to about 10 per cent, says Agrawal.

Thakkar, however, feels some stock picking, especially investment in less volatile companies that have globally diversified businesses could bring bigger gains — such as PepsiCo and Nestle that are not dependent on the US economy alone. Their earnings are less volatile and valuations reasonable with price-to-earning or PE ratios between 15 and 16. MasterCard is another of Thakkar's top pick. An additional factor is the disparity in valuations between Indian and overseas stocks of some companies. Nestle India trades at a PE of between 40 and 45, about three times the valuation of its parent company, Thakkar adds.

Agrawal bats for Chinese stocks also. "China's manufacturing excellence, its strong per capita income growth, and the strengthening of its banking system puts it in a better spot." To become a part of the Chinese story, investors can opt for the Hang Seng BeES (Benchmark Exchange Traded Scheme). With so many choices, certainly it is time to look beyond Indian bourses. ◆

Courtesy: Money Today

The best way to take part in the commodities rally is to invest in global funds as Indian companies have limited leverage

MONEY Funds

Top 10 Balanced Funds

Fund	RETURNS (%) 3-month	6-month	1-year	3-year	5-year	Sharpe Ratio
HDFC Children's Gift-Inv	-6.02	4.51	24.96	11.34	11.97	0.33
HDFC Prudence	-7.22	2.49	21.41	11.46	18.47	0.34
HDFC Balanced	-7.91	1.22	17.91	11.21	14.86	0.39
Reliance Regular Savings	-9.47	0.36	17.09	12	16.63	0.36
ICICI Prudential Child Care-Gift	-6.11	1.45	16.09	8.22	16.73	0.21
Birla Sun Life 95	-3.85	4.75	14.3	-3.25	5.44	-0.2
ICICI Prudential Balanced	-5.78	3.01	13.98	1.51	9.33	-0.06
Canara Robeco Balance	-6.49	-0.15	13.31	7.4	14.25	0.16
Baroda Pioneer Balance	-4.76	1.51	12.11	3.48	–	0.03
UTI CCP Advantage	-8.54	1.14	12.07	7.52	16.07	0.17
Category Average	-7.3	0.2	11.4	3.4	11.7	–
Average Equity Diversified Funds	-9.7	0.0	11.9	0.4	12.7	–
BSE Sensex	-7.8	2.4	12.8	0.4	13.3	–

Top performing balanced funds on a one-year return basis
Data as on January 28, 2011. Returns for more than one year are annualised

Source: Valueresearchonline.com

tion for the portfolio."

The Caveat: Having said that, balanced funds are not always the best bet. "Balanced funds work as an asset allocation product. In a year when equities do exceedingly well they may underperform equity funds," says Dharmendra Grover, fund manager, SBI Mutual Fund. Shaikh says one should ideally look at 3- to 5-year performances because markets experience both bull and bear phases within such a timeframe.

A look at the returns of balanced funds during the bull years of 2006, 2007 and 2009, one can see their relative underperformance compared with the equity diversified category (See *Balanced vs Equity Funds*). However, during the financial crisis in 2008, these funds lost only 42 per cent compared with a 53 per cent drop in returns by diversified equity funds. The category also performed in line with the markets during the volatility seen in 2010.

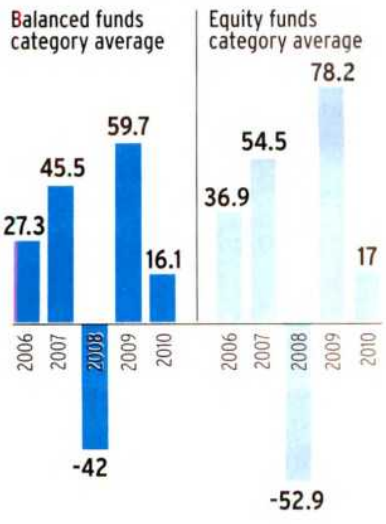
However, during the bull year of 2009, Reliance Regular Savings Balanced Fund delivered a superior return of 75 per cent compared with the category average of 60 per cent. The fund also cushioned its fall to 36 per cent compared with a 52 per cent drop of the Sensex in 2008.

Also, among the top performers was HDFC Prudence that has consistently given superior returns in the past 10 years, with a compound annual growth rate of 26 per cent.

Over the long term, Canara Robeco Balanced Fund, too, has been in the top quartile. Though the fund's performance has dipped of late due to its lower equity exposure, the fund is optimistic and hopes to increase investment in equity.

Balanced vs Equity Funds

In a bear market, as in 2008, balanced funds limit the downside



Who Should Invest? Currently, exposure to equity is imperative to stave off the negative impact of inflation. Investing in debt alone would mean negative returns. For moderate risk takers, balanced funds work best since they offer an equity exposure of between 65 and 75 per cent along with debt allocation. "Since balanced funds have a defined asset allocation, it ensures timely profit booking and reallocation," says Shah. They also offer tax benefits as these are treated as equity investments. However, investments in these should be made by way of systematic investment plans to balance out the uncertainties in equity and debt markets. ◆

Courtesy: *Money Today*

What is Intellectual Property

Intellectual Property are long term assets created by the use of intellect. These include Inventions, Literary and Artistic Works, Symbols, Names, Images and Designs. Patents and Designs are temporary rights granted by the Government of India for disclosure of an invention/inventive process or novel design. **Patents are NOT Trademarks.**

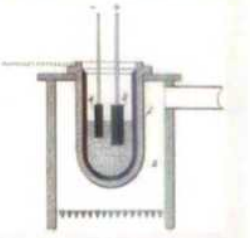
Patents

Patents are granted for new Inventions for Products.

In 1904, a patent was granted to King C. Gillette for a safety 'razor'.

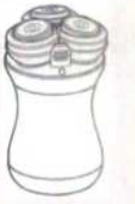
Patents are also granted for new Inventions for Method of Production or a Process.

In 1889,Charles Martin Hall patented an inexpensive method for the production of aluminium, which brought the metal into wide commercial use.



Designs

Industrial designs are the visual shape of objects that are not purely utilitarian. Designs can be a two or three dimensional pattern used to produce an industrial product. eg the Philip's 3 Headed Electric Rotary Shaver Design.



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The Deutsche Bank logo is a graphic design.

The Coca-Cola Bottle is a 3D shape trademark.

Copyright

Literary and artistic works such as novels, poems, plays, films, musical and cinematographic works, drawings, paintings, photographs, sculptures and architectural designs.

Book : "*Five Point Someone*" by Chetan Bhagat.

Art : Leonardo Da Vinci's "*Mona Lisa*".

Sculpture : Alexander Calder's *Le Halebardier* (Sprengel Museum, Hannover, Germany).

Trade Secret

Formula, practice, process, design, method or information, which is not generally known or reasonably ascertainable, and by which a business can obtain an economic advantage over competitors or customers. Eg. The Coca-Cola Formula or a Share Trading Algorithm.

Geographical Indication

A name or sign used on certain products which corresponds to a specific geographical location or origin (eg. a town, region, or country), and that may act as a certification that the product possesses certain qualities, or enjoys a certain reputation, due to its geographical origin. Eg. Darjeeling Tea, Parma Ham, Kancheepuram Silk, Madhubani Paintings.

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LAST BUT NOT LEAST

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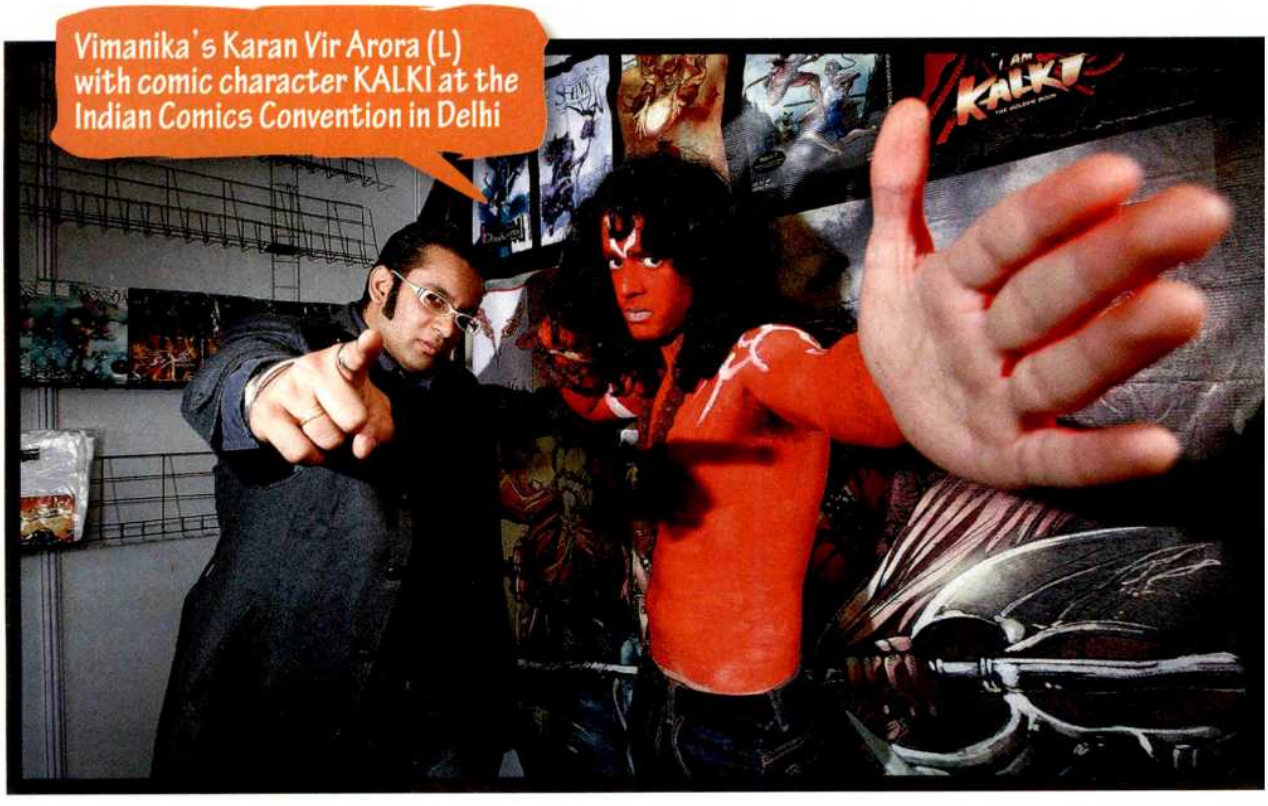
Comic Relief

The slow-moving comic books and graphic novels space is looking up with the entry of new players and a rise in interest. BY ANUMEHA CHATURVEDI

About three years ago, two men, whose professions were as far apart as the places they belonged to, decided to put their money where their hearts were, and not where their families would have ideally wanted them to. Mumbai-based Karan Vir Arora, a motivational speaker and personality development trainer whose family was in the real estate business, launched Vimanika Comics, to produce comics based on mythologies, with ₹5 lakh borrowed from his father. Delhi-based Keshav Thirani, who had thriving businesses in railway equipment as well as LED lighting, started Campfire, a publishing house for graphic novels.

Publishing, especially that of comic books, has traditionally been a



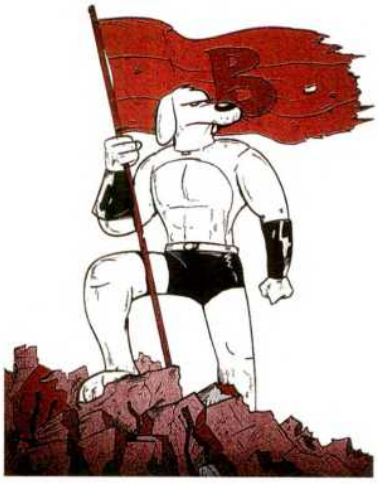
Vimanika's Karan Vir Arora (L) with comic character KALKI at the Indian Comics Convention in Delhi

SHEKHAR GHOSH/www.indiatodayimages.com

slow-moving business in India. But neither has any regrets. "I was interested in mythology and wanted to put my knowledge to good use," says Arora, adding that he was inspired by the launch and subsequent success of Virgin Comics in 2006.

Thirani's love of books comes through even when he talks hard business. "There were few easy-to-read, entertaining books in the market," he says. "Children did not enjoy reading. Thus we thought of providing condensed, illustrated versions of old classics, mythological stories and biographies, which, however, would retain the original flavour," he adds.

Campfire has brought out 47 titles so far with a print run of 5,000 per title. In India, it sells around 10,000 copies a month. It notched up sales of around $30,000 in countries such as the United States following a tie-up with publishing giant Random House last year. Besides, it is taking its graphic novels to countries like Hungary, Turkey, Brazil and the Czech Republic, has tied up with Amazon and Flipkart for online distribution in India, and plans to come up with 100 titles in the next two years.



Vimanika sells nearly 10,000 copies per month and expects to double its turnover this year from ₹50 lakh in 2010. It also plans to enter the licensing and movie business this year. "This is just the tip of the iceberg. There are immense opportunities in this sector, which is expected to grow to ₹500 crore in the next five years," says Arora.

The publisher's optimism was evident at the Comics Convention in Delhi in February, India's first and along the lines of similar conventions held annually in New York, Baltimore, London and elsewhere in the West. The two-day jamboree saw an impressive turnout of all those associated with the comics and graphic novels industry, including publishers, retailers, merchandisers, writers, artists, illustrators, etc., besides attracting more than 15,000 visitors and fans and notching up encouraging sales. Campfire alone sold titles worth ₹1.5 lakh.

The sheer scale of participation and the enthusiasm of comic fans belied the notion of comics as a fading genre. Rajat Mishra, a 30-year-old Product Manager at remote tech support provider iYogi, who heard about the convention through Facebook and blogs, says he would not have missed it for anything. "I grew up on *Amar Chitra Katha* tales and *Tintin*.... I was surprised by the turnout and the response to this event," adds Mishra.

So was Jatin Varma, Founder of Twenty Onwards Media and the moving spirit behind the event: "I am overwhelmed by the response... Hopefully, in the coming weeks, you will hear of new projects inspired by the Comics Convention, and the event will be an annual affair."

The convention, intended to celebrate the exciting world of comics and give a boost to the industry, showcased its emerging trends. The estimated ₹100-crore comics and graphic novels space, which until a few years ago was dominated by veterans like Diamond Comics — publishers of old favourites such as *Chacha Chaudhary*, *Billoo*, *Pinki*, *Phantom* (Hindi), among others — and ACK Media — owners of brands

Visitors admiring posters at the Comics Convention

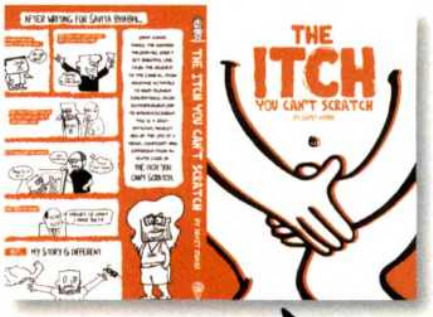
CAMPFIRE: Graphic novels straddling mythology, biographies, classics and originals

The Newbies

VIMANIKA: Comic books on mythology

INDIAN WAR COMICS: Celebrating India's war heroes

MANTA RAY: Publishers of comic books and graphic novels for adult readers



POP CULTURE PUBLISHING: Launched at the Comic Convention, it will focus on both comics and graphic novels

like *Amar Chitra Katha* and *Tinkle* — is seeing some serious action by new players such as Campfire and Vimanika, among others, while the existing ones are expanding into other verticals. Last year, Om Books acquired the Hindi translation rights of the *Tintin* comic book series from Franco-Belgian Casterman Publishers.

The old domestic players, perhaps sensing the growing competition, are ramping up their presence with new categories and vigorous expansion plans. The ₹25-crore Diamond Comics group is planning to roll out an integrated delivery platform spanning e-comics and magazines, mobile games, and a children-focused content portal. "We are also looking at licensing opportunities for TV, video games and merchandise. A unique barter arrangement with Disney, Nickelodeon and MTV — we give ad space to these brands in our comics and get ad slots in return —has also helped us in expanding our reach," says Managing Director Gulshan Rai.

Diamond's closest competitor ACK Media has already moved to TV with a weekly, half-hour show called *Amar Chitra Katha* on Cartoon Network. With a new title every two months, the publisher has moved beyond comics and mythology and introduced catalogues, magazines and hardbound small books on India's tourist attractions and historical personalities. Last year, it acquired the distribution business of India Book House, India's largest books and magazine distributor, and hopes to expand its reach to over 1,000 bookstores and 20,000 magazine outlets this year. In June last year, Elephant Capital Plc, an AIM-listed private equity fund, invested £3.2 million in ACK Media.

Rosy Picture

The ₹100-crore market is expected to swell to ₹500 crore by 2016

Established players moving to other verticals like Internet, licensing and television

New entrants expanding through domestic sales and exports alike

Says Savita Pai, Vice President of Product Management at ACK Media: "Children below the age of 14 are our core target audience, and they are well over 300 million. We are competing today with television, gaming and movies, and expanding our reach is critical." The group's flagship brand *Amar Chitra Katha* sells 25,000 copies, and *Tinkle* over 1 lakh per month. The creator of these two brands, Anant Pai, who was felicitated with a Special Lifetime Achievement Award at the Comics Convention, passed away on February 24, aged 81.

The going is not easy for new players, though. Thirani of Campfire admits that gaining a foothold is tough and he expects to break even only sometime in 2012. "The gap between income and expenditure is huge, and I am willing to bleed solely because of my love for this space," he says, adding: "In a print run of 5,000, very few titles cross the 3,000 mark."

Andrew Dodd, a former Citibank employee, was hired as the publishing, editorial and rights consultant of Campfire when it was starting out. "We started with four employees and pushing sales in the first year was an enormous challenge," he says. A graphic novel can take as many as seven months to get completed, and the printing and distribution operations take a toll on budgets, he adds.

Events like the Comics Convention may be just the kind of booster that Thirani and his ilk need: a platform that gives them a ready audience and a burst of sales as well. ◆

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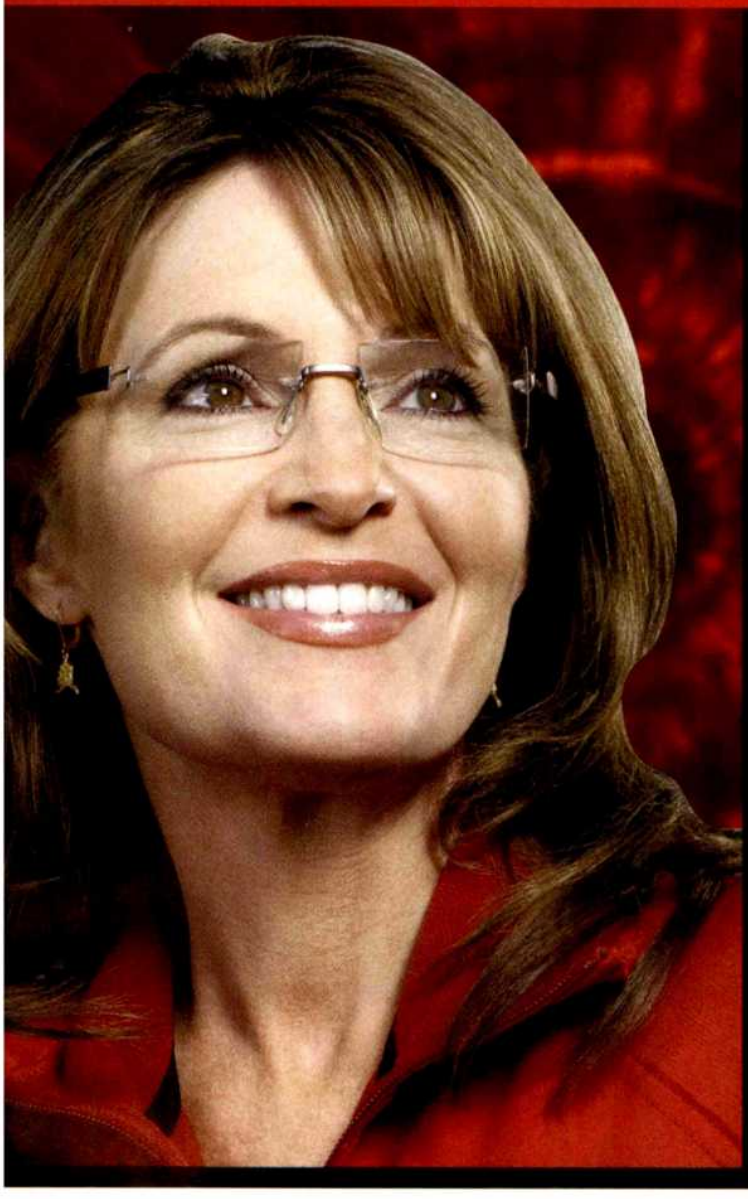

SARAH PALIN

The First Female Governor of Alaska (2006-2009), 2008 Republican Vice-Presidential Nominee and Author

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Just Married. Now What?

Can tying up help Nokia and Microsoft stay relevant in the world of mobile devices?

The news that Nokia and Microsoft were tying up came at the start of our issue cycle, so I am sorry that I have to bore some of you with yet another article on the tie-up. But, the news is fascinating. Nokia is desperate to stay relevant in the space of mobile devices as Apple and Google eat its lunch and Microsoft is desperate to make a bigger mark in the world of mobile software.

I still believe that Nokia makes some excellent hardware. The problem has been on the software front. The Symbian Software Series 60 that powers Nokia's Nseries smartphones was perfect when it was launched. But as smartphones added features and capabilities, the software and Nokia's reluctance to put in faster processors in its devices (the Nokia N8 has a 680 MHz processor, while the competing iPhone, Samsung Galaxy S and HTC Desire all have 1 GHz processors) crippled its ability to compete.

And even though Nokia remains the king of smartphones in India, thanks to its amazing distribution network and brand goodwill, the growing number of Android devices being used is giving Nokia a run for its money. Worse still, the reluctance of application developers to develop applications for the Symbian platform, preferring Apple's iOS and Google's Android instead, fatally crippled Nokia among high-end smartphone users who live off apps. But how does Microsoft change all that?

From what one can extrapolate from Stephen Elop, Chief Executive Officer of Nokia, and his statements at London and Barcelona industry events is that Microsoft is throwing a lot of money and engineers behind this effort as well. Windows Phone 7 is much better than Windows Mobile 6.5 and at par with Android and even the iOS. Also, Microsoft does have plans to integrate Xbox Live into Windows Phone 7, and while the depth of the tie-up remains to be seen, it might give both partners a say in what the other is working on.

SANTOSH

But what about India? As I said earlier, Android is getting bigger in India. Most of the recent device launches at the Mobile World Congress in Barcelona were Android devices. While that in itself possibly explains why Nokia did not choose to go down the Android route, as it increasingly seems that Android devices will become commoditised, it also highlights Nokia's challenge. But, if one discounts this by arguing that this impacts only the high-end of the market, the problem runs deeper. Today, one can buy the Micromax A60 Android 2.1 handset in the market for less than ₹7,000. And with 90 per cent of the Indian mobile device market below the ₹5,000-mark, mobile chipmaker Qualcomm predicts a ₹5,000 Android device to be available in India by mid-2011 and a deluge of such devices by 2012.

Nokia has said that it will keep Symbian 30 and Symbian 40 on their low-end devices. When, rather than if, cheap Android devices start flowing into the Indian market, Nokia might have a bigger problem than just dealing with Apple at the high-end. It could be a multitude of manufacturers making Android devices across the range. And while Nokia might remain a volume leader, Android will dominate the operating system charts in India (as it probably will across the world). Frankly, the best thing Nokia can do right now is to get a high-end Windows Phone 7 device out quickly, probably in less than six months and also announce some mid-to-low-end devices running Windows Phone 7.

Will this Microkia (or Nokrosoft) marriage work? It is difficult to say, but you really never know. ◆

INCREDIBLE SPEAKERS
UNFORGETTABLE CONVERSATIONS

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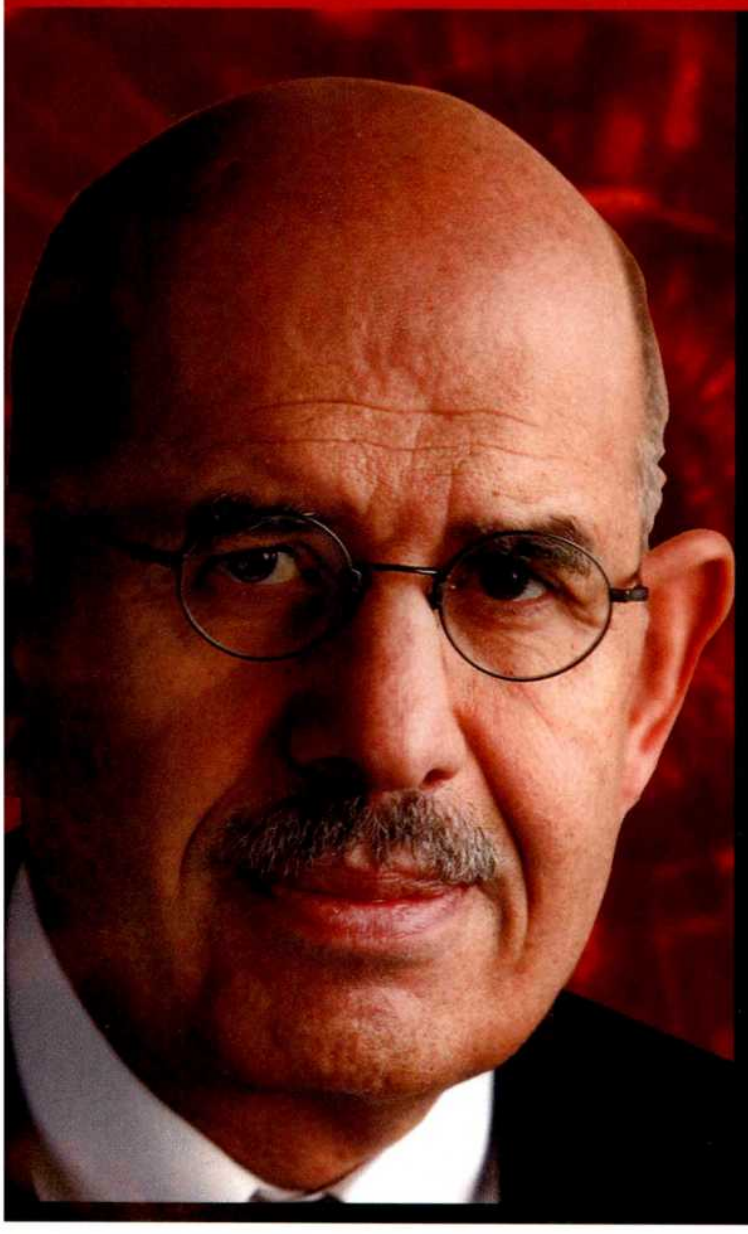

MOHAMED ELBARADEI

Leader of the opposition in Egypt,
Nobel Peace Laureate 2005

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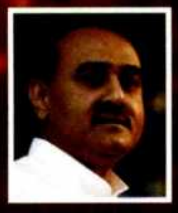
Leader of the oppositic Egypt, Nobel Peace Laureate 2005

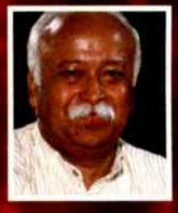
Narendra Modi
Chief Minister Gujarat



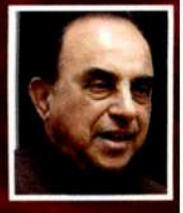
Praful Patel
Ministry of Heavy Industries & Public Enterprises

Jairam Ramesh
Minister of State (Independent Charge) in the Ministry of Environment and Forests

Arun Jaitley
Leader of Opposition Rajya Sabha



Mohan Bhagwat
RSS Chief



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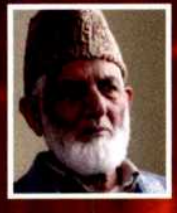
President of the Janata Party

Mani Shankar Aiyar
Member of Parliament Rajya Sabha

Lt Gen (retd) Jacob-Farj-Rafael
Military Mastermind Former Governor of Punjab and Goa.

Maulana Mahmood Madani
President of Jamiat-e-Ulema-e-Hind



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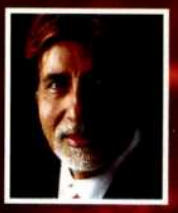

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K.P. Singh
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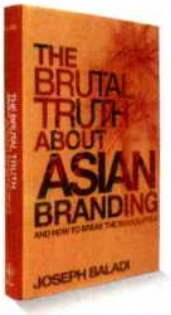
A Can of Asian Brand-worms

Joseph Baladi is not going to be very popular with Asian CEOs after this book, says Harish Bijoor



The Brutal Truth About Asian Branding and How to Break the Vicious Cycle
By Joseph Baladi
Publisher: John Wiley & Sons
Pages: 280
Price: ₹1,360

This is a mouthful of a book. At least the title is: *The Brutal Truth About Asian Branding and How to Break the Vicious Cycle*. The author, Joseph Baladi, is a writer-thinker-practitioner raised in South America, educated in Australia and has worked in New York, Mexico City, Tokyo and Singapore. He has a cogent set of thoughts, strong thoughts that will stir up a hornet's nest, if not a CEO's.

The premise of the book is laid out in the title itself. There is a brutal truth about Asian branding that has brands from the region on the back foot. A premise that seems to begin with the *Newsweek* cover story of July 27, 2009, that screamed: "Name a global brand that is Chinese. Can't do it? Here's why".

Baladi will take you through the pages, telling you why. Somewhere on the way, he will tell you what you must do if you are one of those blinkered CEOs who refuse to accept the truth.

Baladi seems to be my soulmate in the realm of branding, and really knows what he is writing about. And he writes it, never mind what every defensive Asian CEO will have to say. Or not say, for that matter.

In many ways, Baladi strikes the right chord on issues that trouble branding across the region, more so in India and China, the two biggies occupying the firmament of fast-paced growth. The centre of power is shifting from the West to the East, and the developed nations are struggling with low rates of GDP growth. In this context, Baladi urges Asia to wake up and let go of old notions that seem to defy the science of branding more than embrace it.

The book challenges CEO myopia in the region, just as it challenges the status quo of a low-value brand quotient that needs to nudge itself onto the track of a higher common value for the good of all. Baladi makes a passionate case for the centrality of the brand and the interconnected nature of its essence, when it comes to corporate organisation and the many pieces of the corporate jigsaw.

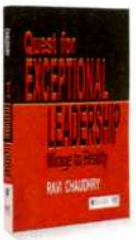
Just somewhere in the conclusion to the book and what it champions, Baladi quotes Paul Valery, the French poet and philosopher, who died in 1945: "The trouble with our times is that the future is not what it used to be." The relevance of this comment for our today and tomorrow is possibly the least understood and the most under-focused point of brand effort across Asia. Baladi champions this. Reading what he writes, I appreciate his frustration as he gets pompous CEOs across the region to wake up and call a spade a spade, rather than an ear-bud.

Baladi is not going to be a very popular man in Asia after this book. And then Baladi is going to be a popular man after this book, after all. Both true. The first is true because plenty of insecure advertising people, myopic brand people and even more myopic CEOs are going to feel a lot more insecure after this tome, which has opened the can of quietly wriggling worms of Asian branding (and let's leave Japan out of this altogether). The second is true because a whole host of really savvy and non-pompous CEOs across Asia sit up and smell the coffee. And, hopefully, act. ◆

The author is a brand-strategy specialist & CEO, Harish Bijoor Consults Inc.

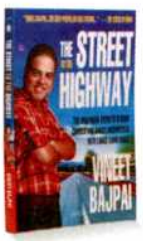
The book challenges CEO myopia in the region, just as it challenges the status quo of a low-value brand quotient

BOOKMARKS



Quest for Exceptional Leadership
By Ravi Chaudhry
Sage Publications
Pages: 286
Price: ₹375

The author argues that the events of 2008 have made people deeply suspicious of business leaders, and only those who do well by doing good can hope to succeed.



The Street to the Highway
By Vineet Bajpai
Jaico Books
Pages: 266
Price: ₹295

Even as his second book on entrepreneurship has hit the stands, Bajpai still claims to be a struggling entrepreneur. Maybe he is the best person to advise wannabes.

Glow of Confidence

Healthy skin and hair can boost your personality and self-confidence at the workplace

Among the side effects of executive stress are skin and hair related problems. "Erratic schedules, prolonged exposure to air conditioning and an imbalanced diet with frequent intake of tea or coffee wreak havoc on body clocks and make executives susceptible to skin and hair infections," says Dr Rajendra Kharkar, dermatologist at Mumbai's Suchak Hospital, who treats hundreds of patients with these problems every month. A majority of them are 20-something employees of call centres/BPOs of JP Morgan Chase, Intelenet and IBM Daksh, all three of which have large offices close by.

Adds Dr Bindu Dewan, dermatologist at Delhi's Sir Ganga Ram Hospital: "Air conditioning at the workplace causes loss of moisture. I get a lot of patients who complain of dry and itchy skin. It is important to humidify the air and install proper humidity control systems." But few offices have so far done that.

"Stress can aggravate any pre-existing problem and lead to hyper pigmentation and spots," she adds. "Using makeup to cover these up could worsen the problem, leading to acne breakouts."

She recommends a high protein diet to combat skin and hair damage. "All soya products, milk and pulses are rich in proteins and are essential for healthy skin and hair," she says. She also recommends herbal teas instead of coffee. "Herbal teas like green tea are a ready mix of vitamins. They have anti-ageing properties and work well for your skin."

If following a balanced diet plan seems an uphill task for most executives, due to their irregular schedules, Mumbai-based dermatologist Dr Satish Bhatia recommends vitamin supplements. "Lack of exposure to the sun and vitamins A and D deficiency can lead to skin damage and hair loss. Multivitamins with omega-3 and omega-6 fatty acids work well to moisturise your skin," he says.

Bhatia also recommends a daily dose of 5 mg of biotin, a vitamin supplement that produces keratin, a protein essential for hair growth and lustre. "Women could also opt for evening primrose oil, a supplement that helps to maintain hormonal balance, and keeps the skin healthy, rejuvenated and moisturised," he adds.

Follow these tips and bid adieu to bad skin and hair days. ◆

ANUMEHA CHATURVEDI

VIVAN MEHRA

A FEW HANDY TIPS

1. Follow a high protein diet to nourish your skin and hair
2. Multivitamins with omega-3 and omega-6 fatty acids also help keep your skin moisturised
3. Biotin (vitamin) supplements lend lustre to your hair
4. Avoid excessive air conditioning as it can lead to dry, itchy skin
5. Avoid stress as it can lead to hair loss, pigmentation

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Rupa & Co. Ltd. is India's largest manufacturer of innerwear and casualwear, with a global presence and an annual turnover of more than ₹525 crores, with best-selling brands like Frontline, MacroMan, Euro, Jon, Softline, Bumchums, Thermocot and others under its umbrella. RUPA is aiming to accelerate its present growth rate of 26% to 50% and above. For this, Team Rupa needs growth-driven, focused and innovative personnel to lead its success story.

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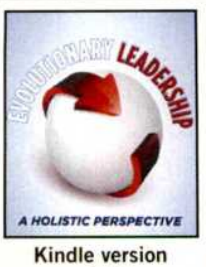

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The Business Case for Diversity

In the hunt for talent, many Indian organisations are arming themselves with a formal strategy to employ and retain women, says a study

In the global hunt for talent, organisations can hardly afford to ignore the large talent pool of women. This realisation is prompting companies to increasingly formulate strategies around women in their workforce, says a study by Catalyst, a leading global outfit that helps businesses build inclusive workplaces. According to the study titled "2010 India Benchmarking Report", 68 per cent of the firms surveyed had devised strategies for advancing the careers of their women employees.

The study is the first India-specific exercise by Catalyst, which has been conducting such global diversity and inclusion benchmarking studies for a decade. In all 56 companies across eight sectors participated in the study.

The report divides the participating companies into two broad categorises: India-headquartered (India-HQ) and India-subsidiaries of European and North American headquartered companies (India-Subsidiary). It notes that companies headquartered in India have some catching up to do with those headquartered overseas. For instance, only 37 per cent of the domestic companies have women-specific career advancement strategies in place, including engagement surveys and round tables for gathering feedback, targeted retention and recruitment efforts, and skills training for recognising and avoiding gender stereotyping.

Says Deepali Bagati, Senior Advisor at Catalyst: "Organisations are now concerned about diversity from a business point of view."

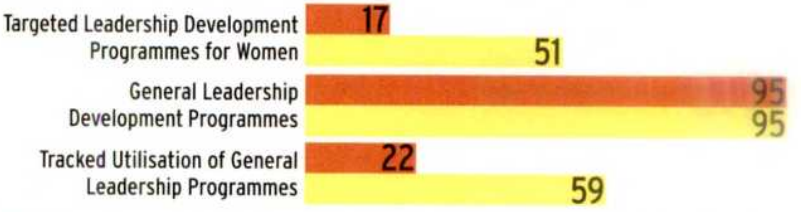
Talent experts such as Chandrasekhar Sripada, Vice President and Head of HR for India and South Asia at IBM India — which sponsored the study — say the business case for gender diversity is based on the simple fact that a new talent pool becomes available. "The tangible benefits are retention and stability that women bring to an organisation."

Among the sectors covered in the study, IT services and BPO sectors lead in terms of organisation-wide strategy for the career advancement of women. ◆

SAUMYA BHATTACHARYA

WOMEN AND THE LEADERSHIP PIPELINE

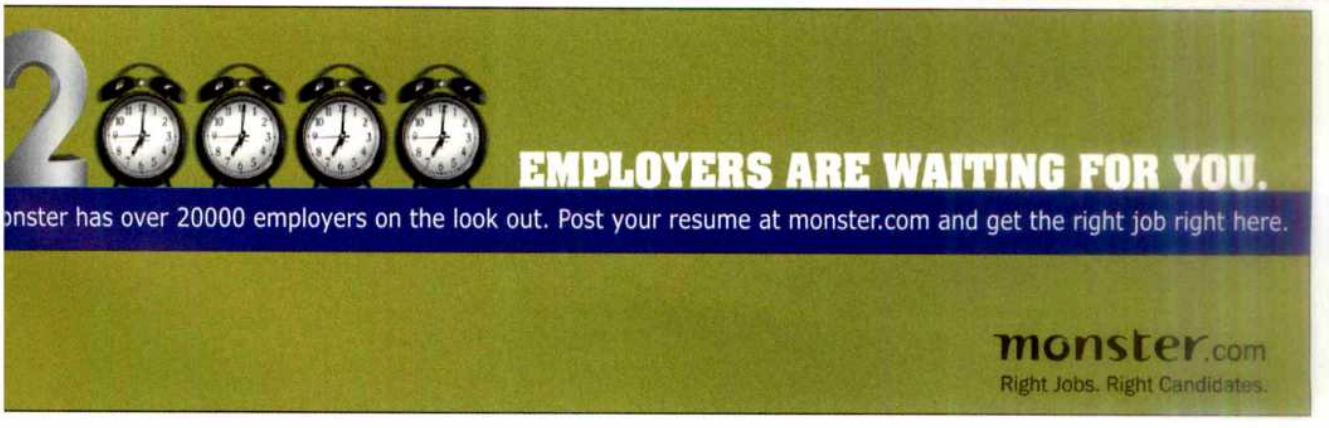
(Percentage of companies which have devised leadership development programmes)



India-HQ: India-headquartered
India-Subsidiary: India-subsidiaries of European and North American headquartered companies

Source: Catalyst 2010 India Benchmarking Report

TELLTALE NUMBERS



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Practice Lead
Location: Hyderabad
Job ID: 9198822
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Senior Business Consultant
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Opus Software Solutions Private Ltd
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Photon Infotech Private Limited
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Description: The candidate must have hands on experience testing full life-cycle of Data Warehousing. Strong in database systems, a certification is preferred.

Headstrong
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Location: Bangalore, Noida
Job ID: 9295592
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Mataflex Technologies Pvt Ltd
Sr. Developer
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Job ID: 9342026
Description: He/she must have strong knowledge in Siebel Architecture and Data Model and proficient with Siebel Tools and Client in configuration and customization of Siebel Objects.

Informatica Corporation
Product Specialist
Location: Bangalore
Job ID: 8495348
Description: Incumbent must have exp. in product development, OO design and implementation, Java, RDBMS, XML Schema, XSL, Web Services Technologies, testing framework Junit/Testing.

Ness Technologies (India) Pvt. Ltd.
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Capgemini
Sales Support
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Job ID: 9353429
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ABB Limited
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Infotech Enterprises Limited
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Location: Hyderabad
Job ID: 9159860
Description: Should have exposure to international markets, preferable in the Utilities domain in marketing of IT services.

Vmware Software India Private Ltd
Business Analyst
Location: Bangalore
Job ID: 9155081
Description: Key Responsibilities: I overall Business Intelligence & Re support to the Field Organization; Coll with the Sales Operations organizat define KPIs etc.

India Mart
Regional Manager - Client Servicing
Location: Noida
Job ID: 9340121
Description: Aspirant must have excellent communication and presentation skills; deep desire to work and succeed in a growing organization with total commitment and sense of job ownership.

Oracle Financial Services Software L
Manager Pre Sales & Solutions
Location: Gurgaon
Job ID: 9271848
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GlobeOp Financial Services
Cost Accountant / ICWA
Location: Mumbai
Job ID: 9174108
Description: Duties: Complete PnL Process; prepare year NAV pa Allocations & Financial Statements Attend client query and resolv satisfaction etc.

Acculogix Software Solutions Private Limited
Finance Manager
Location: Bangalore
Job ID: 9333020
Description: Responsible for Consolidating report, Preparation of US Financial Report with different schedules in Excel and Hyperion module.

PwC Service Delivery Center
CA Internal Audit
Location: Kolkata
Job ID: 9349409
Description: Exposure to int department of large corporate. S conducted internal audit of variou that are common to any organizatio

Cybage Software Pvt. Ltd.
Finance Manager
Location: Pune
Job ID: 9325362
Description: Functions: Manage accounts of the company (includes AR, AP, Compliances); Lead the Central Accounting team; Finalization of accounts of the company; Forex Management etc.

Target Corporation
Project Manager Finance Operatio
Location: Bangalore
Job ID: 9302206
Description: Responsibilitie understanding the Payroll & ARA leading teams, performing tasks an projects.

Applabs
Asst Manager/Deputy Manager Finance
Location: Hyderabad
Job ID: 9335605
Description: Responsibilities: Preparation of consolidated financials monthly / yearly; Global Inter Company Reconciliation monthly; Preparation of MTM losses / gains monthly; Cost Variances etc.

SIEMENS
SR Officer - Accounts & Finance
Location: Bangalore
Job ID: 9341014
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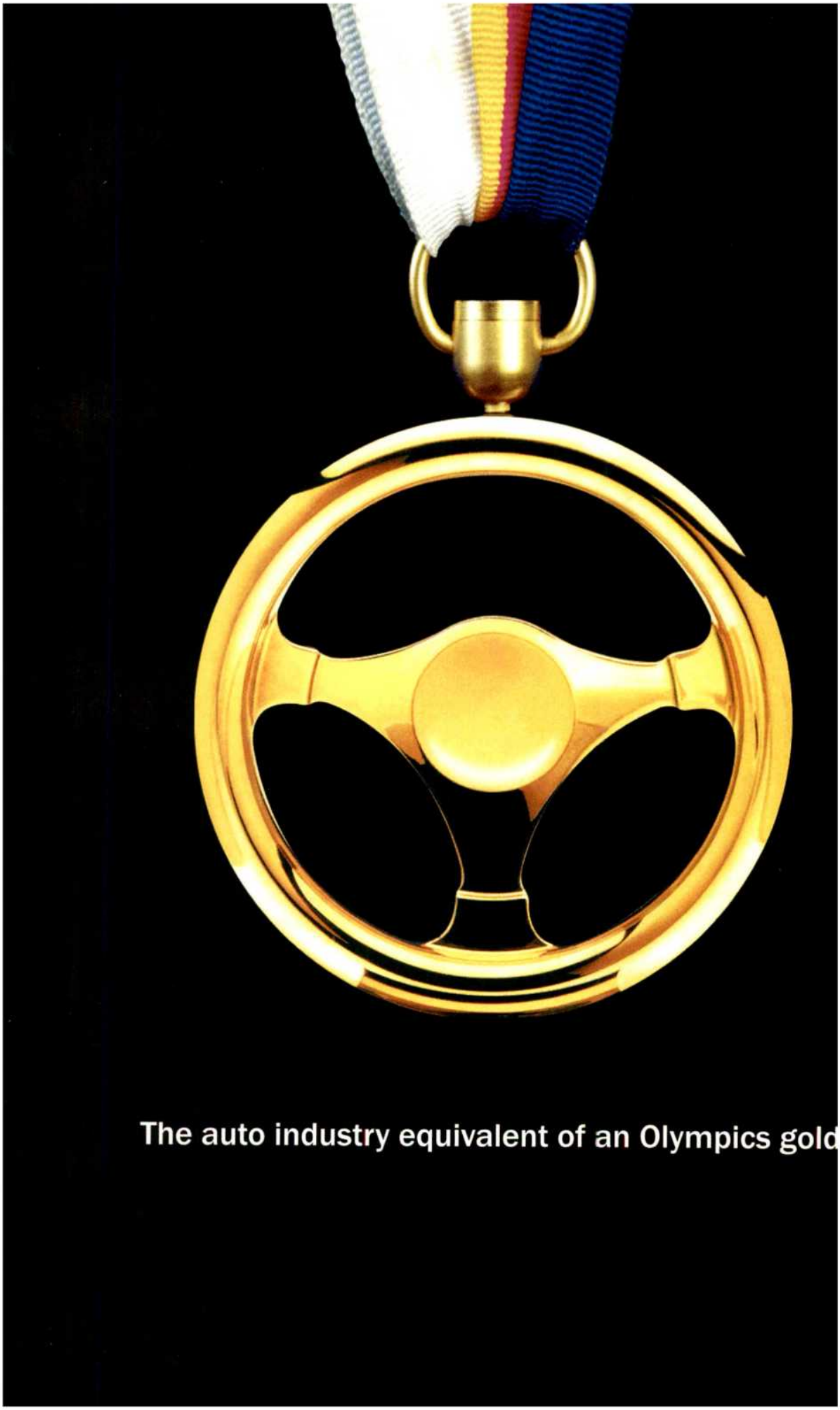
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Hall of fame	Import SUV of the year	Consumer Choice for Favourite Owner Driven Car	Entry-level Motorcycle of the year
Motorsport star	Import Car of the year	Consumer Choice for Favourite Chauffeur Driven Car	Executive Motorcycle of the year
Green Steering	SUV/UV of the year	Consumer Choice for Enthusiast's Delight	Premium Motorcycle of the year
Automotive Company	Hatchback of the year	Consumer Choice for Off-roader's Favourite	Import Motorcycle of the year
	Sedan of the year	Consumer Choice for Aspirational Car of the Year	

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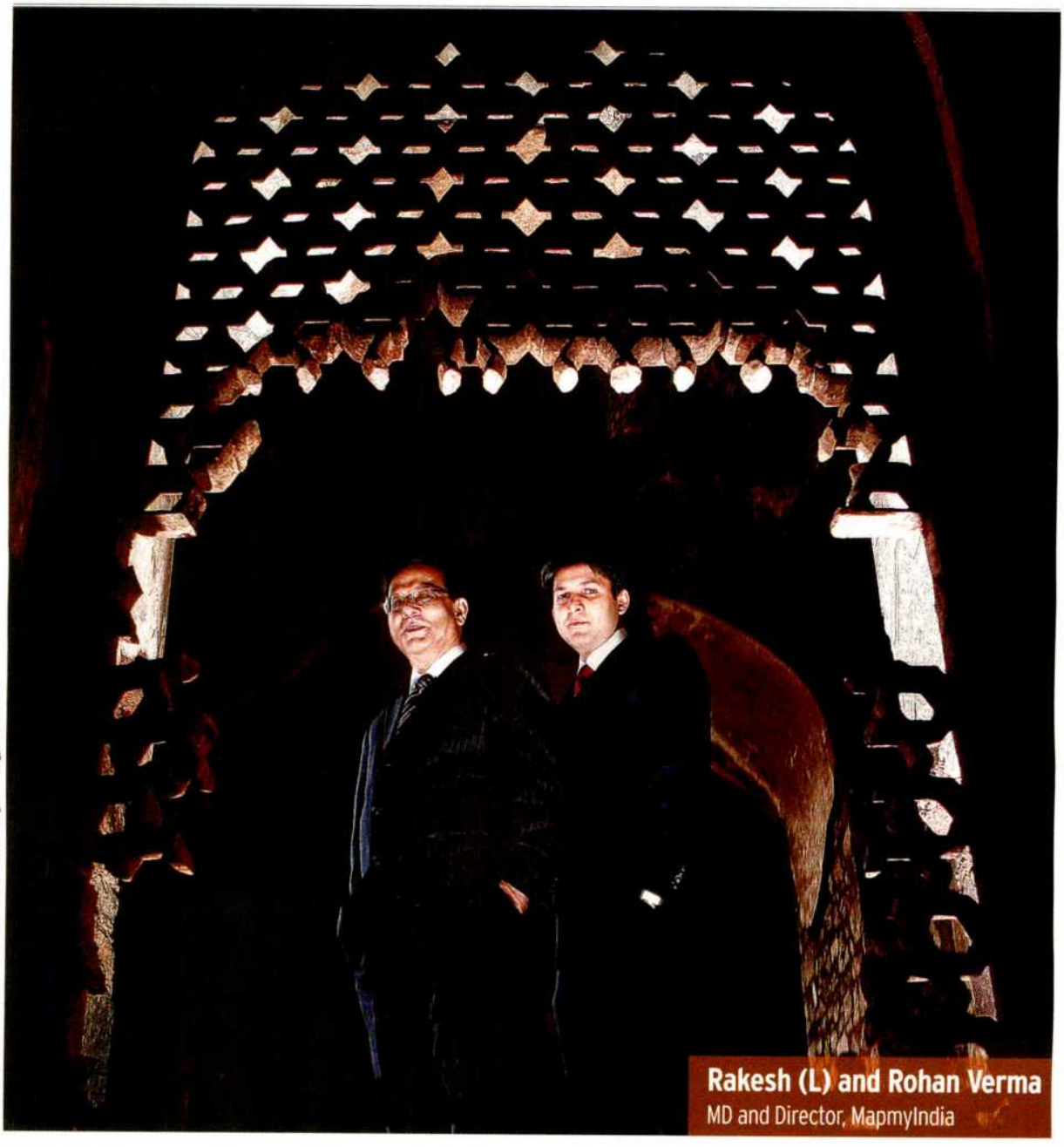

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Rakesh (L) and Rohan Verma
MD and Director, MapmyIndia

Mapping India

Theirs is a nondescript office in Delhi's Okhla Industrial Area. But there is nothing nondescript about MapmyIndia's navigation products. **RAKESH VERMA**, 60, like many engineers before him, had moved to the United States and settled down to a contented suburban life. But when he did come back to India, he lamented the lack of digital maps and in 1997 started MapmyIndia, a venture which was to do just that. "We started out with online maps but that was hampered by lack of connectivity. We did make money selling data to logistics companies but we realised that if we have to grow we have to move up the value chain," he explains. Today, MapmyIndia navigation devices — available at ₹8,000 upwards — have local address information relating to 18 Indian cities. Son **ROHAN VERMA**, 24, is now persuading auto firms to install navigation software at the factory itself. "Today, our software has been adopted by BMW, Hyundai, Ford and Mitsubishi," says Verma Junior. Aiming to grow revenues from ₹50 crore at present to ₹1,000 crore five years from now, the Vermas are hoping that Indians will pick up navigation devices instead of asking for directions.

KUSHAN MITRA

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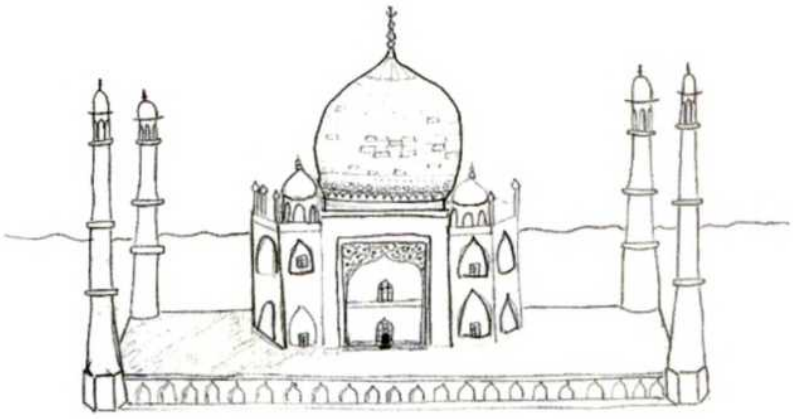

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Shri. Dayanand Agarwal, Chairman & Managing Director
Shifted Over 3 Lacs Homes and No.1 in the last decade
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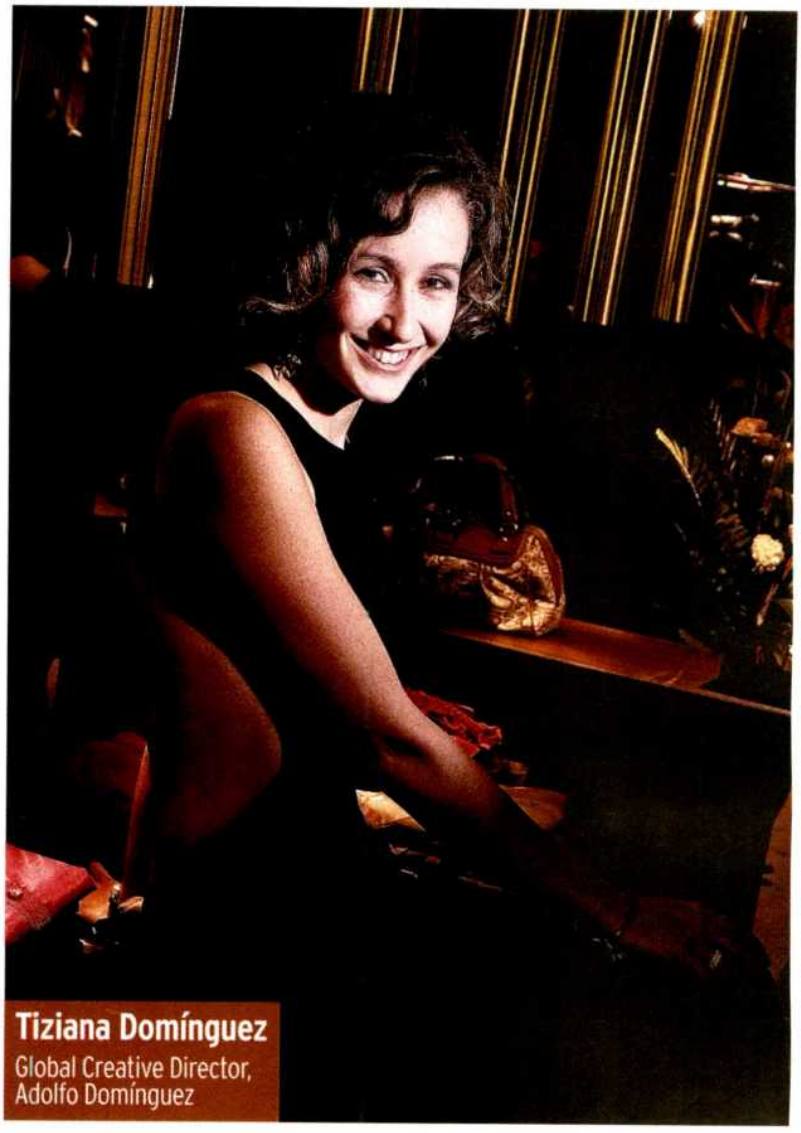
Beauty Queen

This 25-year-old is heiress to a global fashion brand. Walking down the ramp comes naturally to her. Adolfo Domínguez, the brand she represents, was the first Spanish fashion label to go global, and now **TIZIANA DOMÍNGUEZ** is bringing this brand, known for its minimalistic design, to India. She grew up around seamstresses. Moving into design was a natural progression for her, just as it had been with her modelling career earlier. "Our slogan is wrinkles are beautiful and we are all for organic materials, nude and pastel colours. I believe our brand is compatible with Indian textiles and sensibilities," says Domínguez, who claims to have a deep connect with India. "My parents practise eastern spirituality and value Indian culture and traditions. I love Indian food, and even frequent Indian restaurants in Spain and the US." She hopes to return soon for yoga retreats and cooking classes. Maybe she could even walk down the runway at one of India's myriad fashion weeks.

ANUMEHA CHATURVEDI



Tiziana Domínguez
Global Creative Director, Adolfo Domínguez

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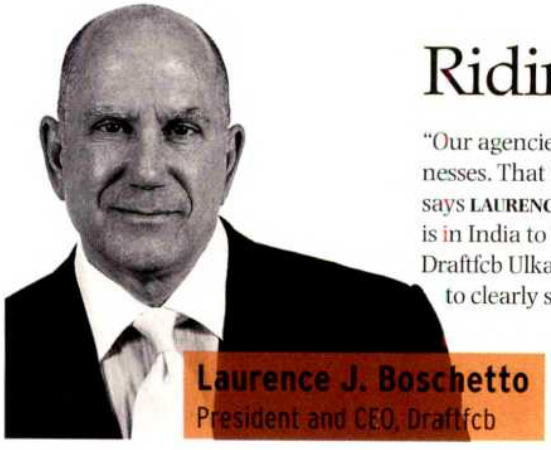

Laurence J. Boschetto
President and CEO, Draftfcb

Riding High

"Our agencies in different regions have a very strong hold on their local businesses. That is why we remained unaffected during the global slowdown," says **LAURENCE BOSCHETTO,** 56, who heads advertising giant Draftfcb. He is in India to "obviously" celebrate the golden jubilee of his Indian subsidiary, Draftfcb Ulka but it is stocktaking that is taking up most of his time. "I want to clearly send out the message that bright, young people have global opportunities in our system," he says, adding: "We have had a two-decade-long relationship with our clients and our leaders here are also stable. This has helped the agency grow and we are actually on the topmost rung here."

SHAMNI PANDE

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UN-AUDITED FINANCIAL RESULTS FOR THE PERIOD ENDED 31.12.2010

(STANDALONE)

Sl. No.	PARTICULARS	QUARTER ENDED 31.12.2010 (Un-Audited)	QUARTER ENDED 31.12.2009 (Un-Audited)	NINE MONTH ENDED 31.12.2010 (Un-Audited)	NINE MONTH ENDED 31.12.2009 (Un-Audited)	YEAR ENDED 31.03.2010 (Audited)
1	**Income**					
	a Income from Operations	2,08,598	1,65,320	5,95,072	4,63,499	6,43,085
	b Other Operating Income	5,635	1,849	11,786	8,118	11,891
	Total Income from Operations	**2,14,233**	**1,67,169**	**6,06,858**	**4,71,617**	**6,54,976**
2	**Expenditure**					
	a Staff Cost	2,867	2,649	8,070	7,984	11,710
	b Other Expenditure	918	697	2,840	1,795	2,778
	c Interest & Finance Expenses	1,23,797	1,02,785	3,54,676	2,84,266	3,91,115
	d Provision- Bad and Doubtful Debts	-	-	13	22	22
	e Depreciation	77	35	226	107	216
	Total Expenditure	**1,27,659**	**1,06,166**	**3,65,825**	**2,94,174**	**4,05,841**
3	**Profit from Operations before Other Income**	**86,574**	**61,003**	**2,41,033**	**1,77,443**	**2,49,135**
4	**Other Income**	3,571	3,449	12,035	12,186	15,784
5	**Profit (+)/Loss (-) before tax**	**90,145**	**64,452**	**2,53,068**	**1,89,629**	**2,64,919**
6	**Tax Expense**					
	- Current Year	23,324	17,110	65,720	49,374	69,561
	- Earlier Year	364	-	364	-	-
	- Deferred Tax	48	(65)	18	74	51
	- Previous years (Refunds)	-	-	-	(3,844)	(4,835)
7	**Net Profit (+)/Loss (-)(5-6)**	**66,409**	**47,407**	**1,86,966**	**1,44,025**	**2,00,142**
8	Paid up Equity Share Capital	98,746	85,866	98,746	85,866	98,746
9	Reserves & Surplus (Excluding Revaluation)					10,09,288
10	**Basic & Diluted Earning Per Share (Rs. 10/- per share)**	**6.72**	**5.52**	**18.93**	**16.77**	**23.06**
11	Public shareholding					
	- Number of shares	32,78,52,000	15,61,20,000	32,78,52,000	15,61,20,000	32,78,52,000
	- % of shareholding	33.20	18.18	33.20	18.18	33.20
12	**Promoters and Promoter group Shareholding**					
	a) Pledged/ Encumbered					
	- Number of shares	NIL	NIL	NIL	NIL	NIL
	- % of shares (as a % of the total shareholding of Promoter and Promoter Group)	NIL	NIL	NIL	NIL	NIL
	- % of shares (as a % of the total share capital of the company)	NIL	NIL	NIL	NIL	NIL
	b) Non-Encumbered shares					
	- Number of shares	65,96,07,000	70,25,40,000	65,96,07,000	70,25,40,000	65,96,07,000
	- % of shares (as a % of the total shareholding of the Promoter and Promoter Group)	100	100	100	100	100
	- % of shares (as a % of the total share capital of the company)	66.80	81.82	66.80	81.82	66.80

(Rs. in Lacs except EPS, Number of shares & % of shareholding)

TOTAL INCOME Rs. 6189 CRORE **UP 28%**

EPS Rs. 18.93 **UP 13%**

PAT Rs. 1870 CRORE **UP 30%**

PBT Rs. 2531 CRORE **UP 33%**

Notes:

1 Previous period figures have been regrouped and re-arranged wherever necessary.

2 The above standalone financial results for the quarter ended December 31, 2010 were reviewed by the Audit Committee at the meeting held on February 09, 2011 and approved by the Board of Directors and taken on record at the meeting held on February 09, 2011.

3 Half-yearly Accounts for the period ended 30.09.2010 have also been got audited from the Statutory Auditors and approved by the Board of Directors and taken on record at the meeting held on February 09, 2011 to ensure the efficacy of the new ERP system implemented and also to ensure smooth transition from the erstwhile accounting package. However, consequent to the complete audit some minor variations have resulted from the limited reviewed accounts for the period ended 30.09.2010 which is not material and accordingly profit after tax has increased by Rs.149.38 lacs. The impact of the increase of Rs.149.38 lacs has been taken in the Net Profit (mentioned at S.No. 7) for the quarter and nine-months ended 31.12.2010. The Half-yearly audited accounts have been submitted to the Stock Exchanges and also posted on the Company's web-site (http://www.recindia.nic.in/).

4 These results have been subjected to limited review by the Joint Statutory Auditors of the Company.

5 Wage Revision for the executives in line with Notification of Government of India and for non executives in line with the negotiations with the union representatives have been implemented fully w.e.f. 01.01.2007. Accordingly, final payment with a total impact of Rs.3,821.06 lacs has been made as against provision for Wage Revision of Rs.3,666.51 lacs standing in the books upto 30th September, 2010 and the additional impact of Rs.154.55 lacs has been charged to Profit and Loss account during the Quarter ending December 31, 2010.

6 Other Income as at 4 above include net foreign exchange gain of Rs.263.14 lacs during the quarter and Rs.2,938.23 lacs for the nine months ended 31.12.2010 (Corresponding quarter Rs.69.96 lacs and nine months Rs.47.47 lacs respectively).

7 The Corporation has declared an interim dividend of Rs. 3.50 Per Equity Share of Rs. 10/- each for the Financial Year 2010-11.

8 The Company's main business is to provide finance for power sector. Accordingly, the company does not have more than one segment eligible for reporting in terms of Accounting Standard-17 issued by the Institute of the Chartered Accountants of India.

9 Pursuant to Clause 41 of the Listing Agreement, the details of Investors complaints are given below:-

Listed Securities	Pending as on 01.10.2010	Received during the quarter	Resolved during the quarter	Pending as on 31.12.2010
Debt Securities	Nil	4	4	Nil
Equity Shares	Nil	196	196	Nil

For Rural Electrification Corporation Limited
Sd/-
(Dr. J. M. Phatak)
Chairman & Managing Director

Place: New Delhi
Date: 09.02.2011

Rural Electrification Corporation Limited
(A Government of India Enterprise)
Core-4, SCOPE Complex, 7 Lodhi Road, New Delhi-110 003, Tel. : 24365161 Fax: 24360644,
E-mail: reccorp@recl.nic.in. Website: www.recindia.nic.in

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Aruna Jayanthi
CEO, Capgemini India

India Central

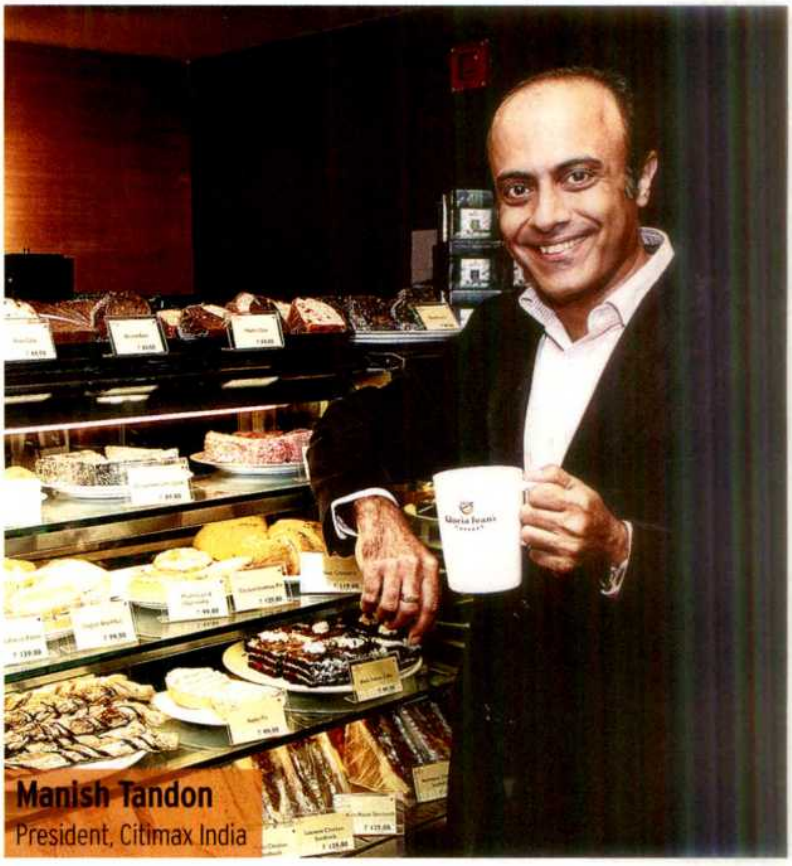
ARUNA JAYANTHI first walked into the offices of Capgemini India a decade ago when it employed just 70 people. The Paris-based outsourcer had acquired Ernst & Young Consulting and inherited its small India unit. Today, Capgemini has its largest set-up in India with over 30,000 employees. Over 15,000 people were hired in 2010 and Jayanthi, who has just been appointed the head of Capgemini India, expects to sustain this momentum for some years to come. "India today accounts for around 30 per cent of Capgemini's staff and we expect this to go up to 50 per cent in the next few years," she says. "We expect the country to be also our global hub of innovation." Jayanthi will have plenty of work on her hands—global rivals IBM and Accenture are much bigger in India and Indian competitors are quickly increasing their onsite headcount. "We are yet the number one outsourcer in Europe," says Jayanthi, strongly defending her employer's position in a tough market. While her predecessors, Salil Parekh and Baru Rao have moved on to larger global positions within Capgemini, Jayanthi's elevation should give the French firm's future a distinctively Indian flavour.

RAHUL SACHITANAND

Caffeine High

MANISH TANDON has the energy level of a man who has had far too much coffee, but it is his plan for Gloria Jean's Coffees that is pumping him up. The Australian coffee chain has given Citimax's parent, the Dubai-based Landmark Group, an exclusive licence to operate stores in India. "Today, we have 15 stores, but we are looking at 45 outlets by March next year. Thereafter, we hope to add 60 outlets every year," says Tandon. To bring that about Citimax is likely to resort to franchising. Meanwhile, what sustains him is not just an assortment of coffees, but also a whole new menu that includes Australia's signature dessert — strawberry lamingtons.

SHAMNI PANDE



Manish Tandon
President, Citimax India

Hari Marar
President, Bangalore International Airport Ltd

DEEPAK G PAWAR

The Builder

When Marcel Hungerbuehler declined another term as president, the GVK Reddy Group-led Bangalore International Airport Ltd or BIAL did not have to look very far for a replacement. **HARI MARAR**, 38, was already inside the terminal managing operations. Having been part of BIAL since September 2006, he has seen the airport take shape brick-by-brick. The new Bangalore airport opened in May 2008 with a peak capacity of 11 million passengers a year. "I am humbled. It shows the kind of confidence and trust the management has in me," says Marar. And he has a big job ahead of him — to expand the airport terminal and almost double its capacity by 2015. ◆

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Director, Lite Bite Foods; and Vice Chairman, Dabur Foods

My leadership style

- ☐ Delegative
- ☑ Participative
- ☐ Authoritative
- ☐ All of the above

The political leader I admire the most
Mahatma Gandhi

The business leader I admire the most
N.R. Narayana Murthy

The leadership lesson I remember the best
Create a team which believes in your dream and empower it to achieve the same

A movie I would recommend on leadership
Invictus (a movie on Nelson Mandela's leadership qualities)

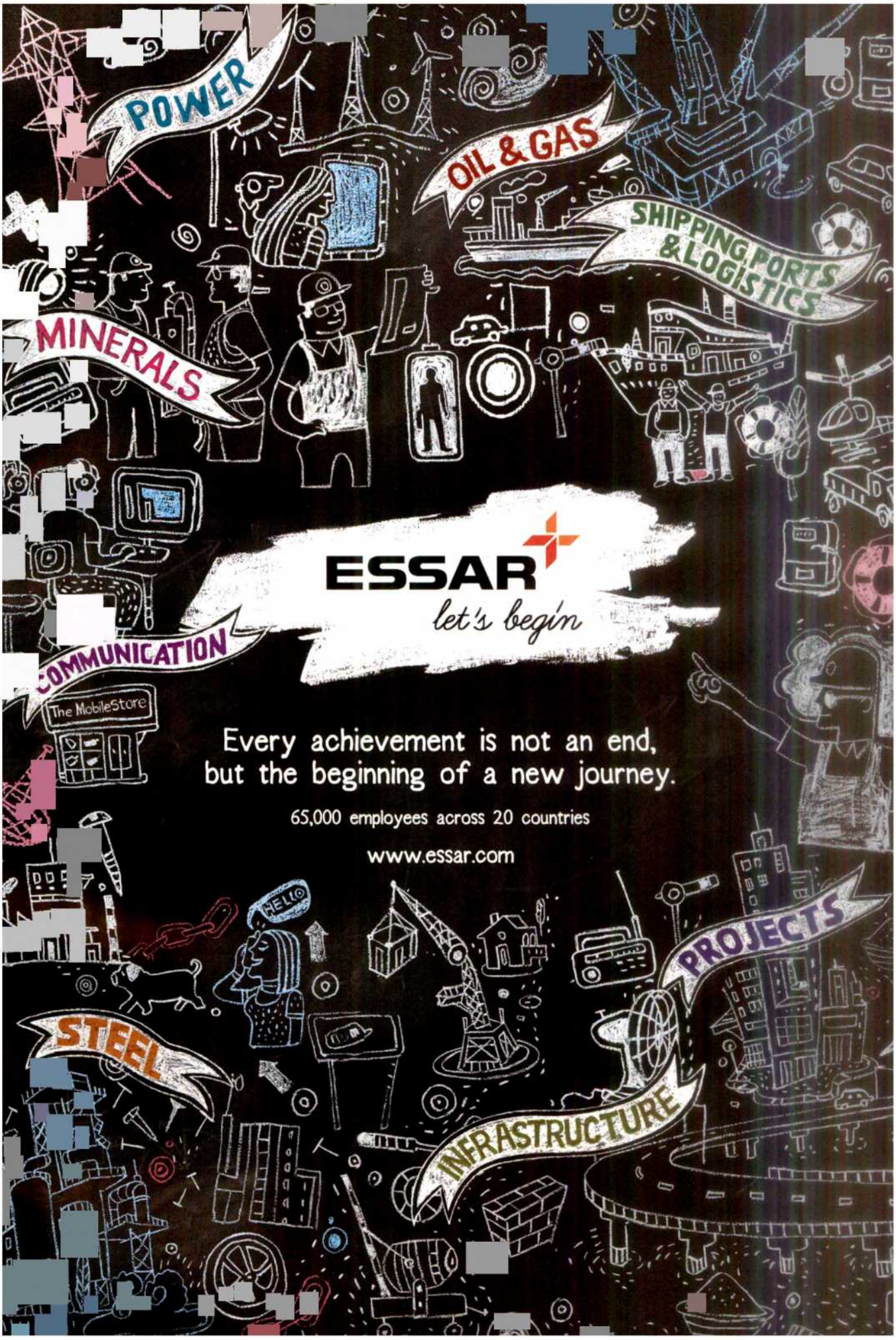
The difference between a manager and a leader
A leader will complete all jobs even if he has to go out of his way. A manager will only look at his responsibility area

All good managers are good leaders
Not at all

As told to N. Madhavan

SHEKHAR GHOSH/www.indiatodayimages.com

Vol. 20, No. 6, for the fortnight March 7-20, 2011. Released on March 7, 2011.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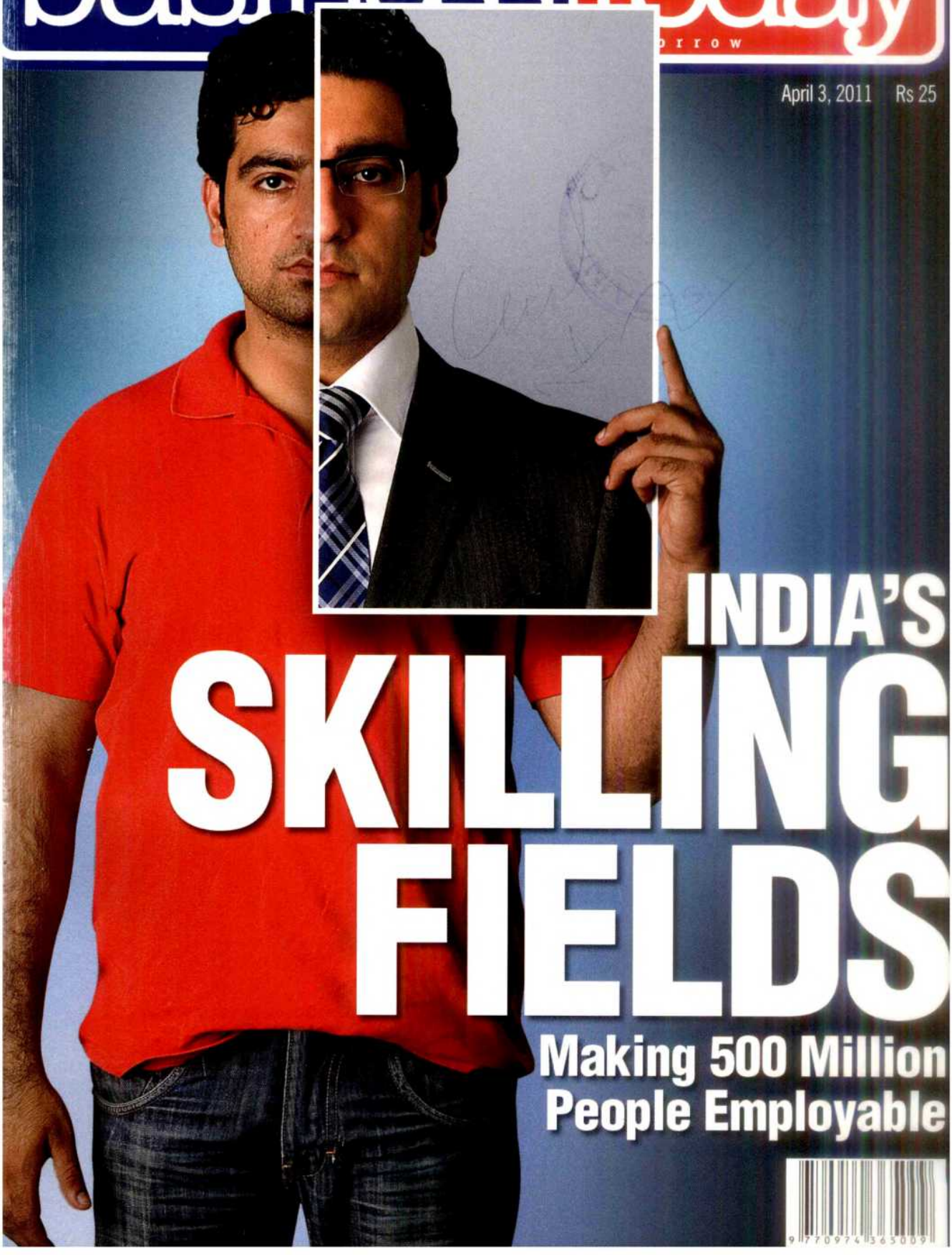
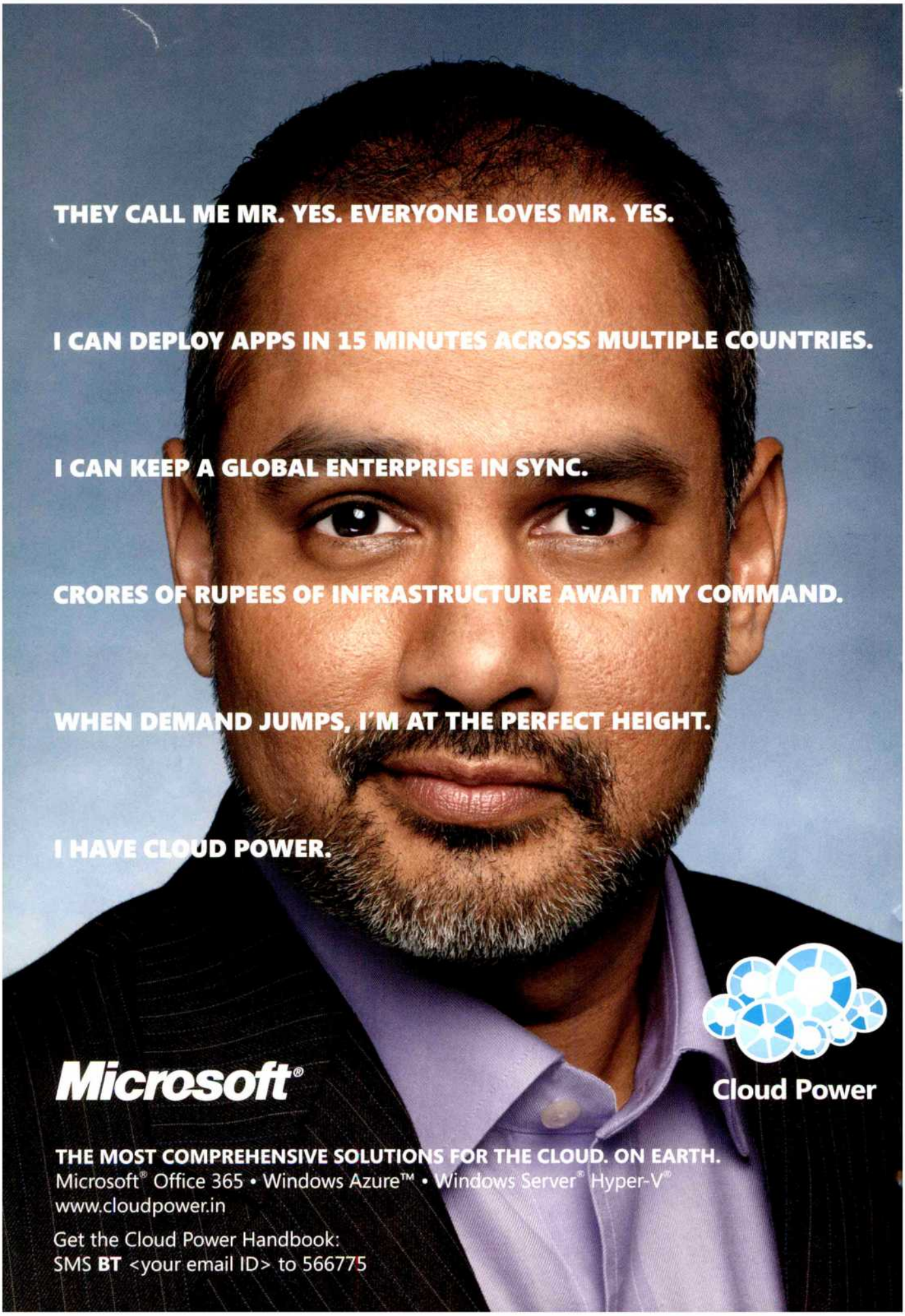


INDIA'S SKILLING FIELDS

Making 500 Million People Employable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HONDA

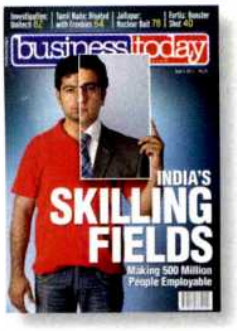
From the Editor

Then we had to find the rule and the string again, and a new hole was made; and, about midnight, the picture would be up — very crooked and insecure, the wall for yards round looking as if it had been smoothed down with a rake, and everybody dead beat and wretched — except Uncle Podger.

Three Men in a Boat, *By Jerome K. Jerome*

Beset by bad news in every newspaper I pick up, and saddened by the huge natural disaster that struck Japan and the Pacific Rim as we went to press, I thought I would let Jerome's unswerving wit shine on two nasty questions that crop up time and again when *Business Today* meets industry and business leaders: Like Uncle Podger, are many Indians unskilled bumblers? And are Indians really, truly *employable?*

Should we not, powered by our hackneyed demographic dividend, be sprinting into Economic Powerdom? If we do not skill up half a billion Indians over the next decade, we could be baptized as the world's most populous also-ran. Will we find enough technicians, accountants, salespeople, engineers, or even electricians, plumbers and automobile mechanics? "About 95 per cent of the Indians coming out of the education system are not employable," says trainer-CEO Uma Ganesh bluntly in our cover story (page 52). Associate Editors Saumya Bhattacharya and Shamni Pande, aided by a team of *BT* writers, say the challenge is stiff, but the resolve to fix the problem is stiff, too.



Skill and labour shortages are starting to cause economic pain in Tamil Nadu and Kerala, which go to the polls in mid-April. The DMK has turned Tamil Nadu into a deficit welfare state, while tourism is dropping off and West Asia turmoil is imperilling remittances in Kerala. Senior Editor N. Madhavan and Associate Editor T.V. Mahalingam complete our trilogy of election-economy investigations starting on page 64 (for West Bengal, see our Feb 20 issue).

Revolts and revolution in oil-rich countries have boosted crude prices and underlined weaknesses in India's oil-subsidy regime. Two columns, on pages 36 and 38, spell out the challenge. One way out of the oil trap is to expand India's nuclear power capacity. But that brings its own dilemmas. Read Anusha Subramanian's reportage (page 78) from Ratnagiri, where an agrarian economy is caught in a pincer between nuclear engineers and land-hungry miners.

You will also enjoy reading the chronicles of the cookie wars (Page 89) and of the Singh brothers' hunter-gatherer instincts in health care (page 40). The Fortis-Religare team is ambitious.

Talking about ambition, I was reminded of another literary gem: Leo Tolstoy's 1885 fable about greed and mortality, "How Much Land Does A Man Need?" In it, the peasant Pahom, provoked by his better-off sister-in-law, thinks to himself: *"If I had plenty of land, I shouldn't fear the Devil himself!"* The Devil is listening. *"All right," thought the Devil. "We will have a tussle. I'll give you land enough; and by means of that land I will get you into my power."* You will have to read the whole story to find out what happens to Pahom.

Tolstoy seems like a contemporary storyteller if you read about the binge by major property developer Unitech that has dragged it into a financial morass. Unitech's promoters, the Chandras, have also felt the Devil's hot breath from the 2G scandal. Associate Editor Shalini S. Dagar (page 82) spent several weeks picking her way through a tale that really takes the biscuit.

Chaitanya Kalbag

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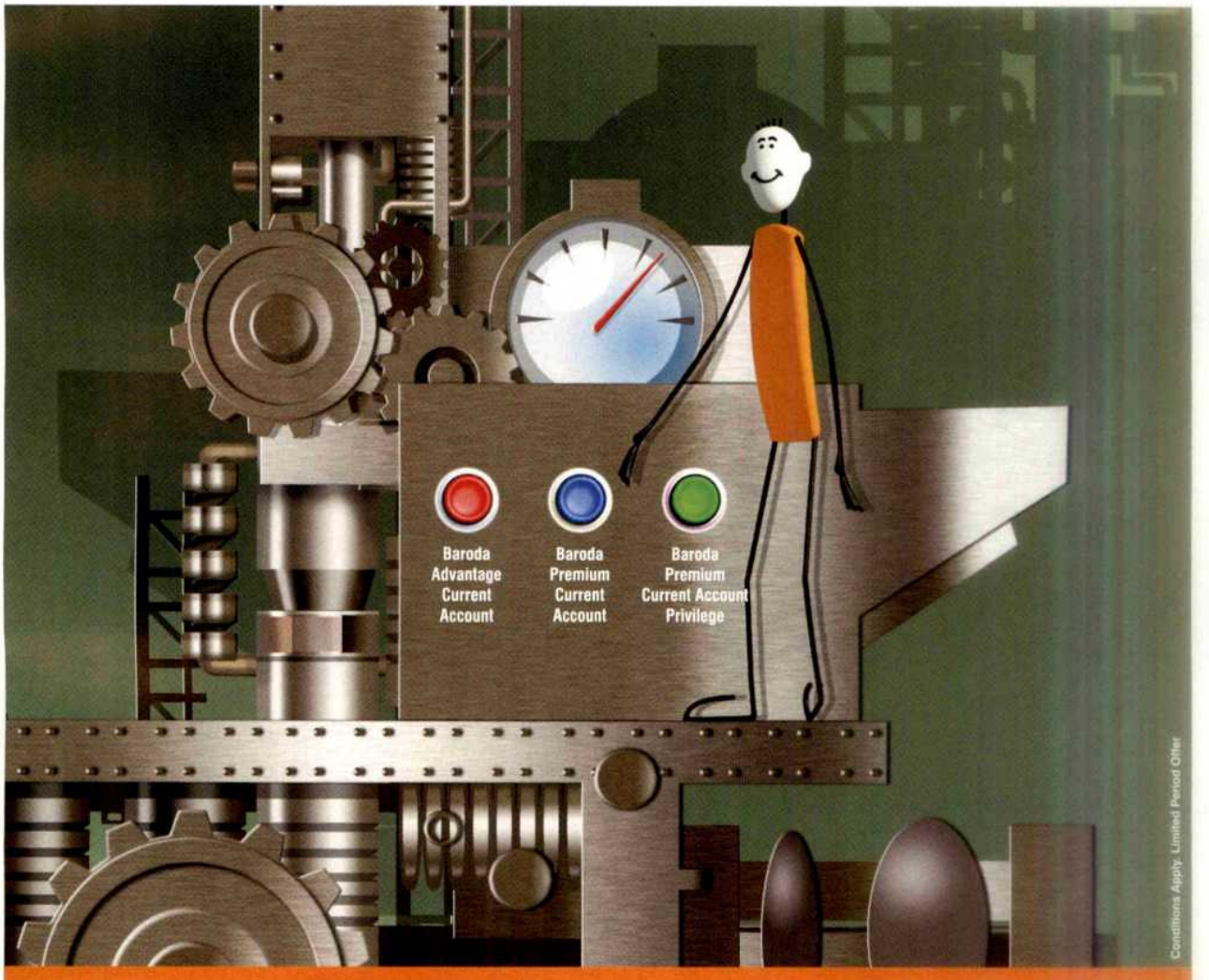

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Bumpy Road Ahead

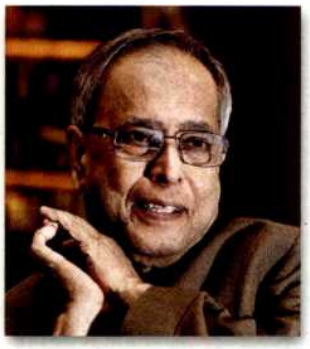
Business Today's cover package *Budget Deficit* (March 20) has given an unbiased report on the Budget 2011-2012, unlike leading newspapers. Most dailies focused on UPA's growth trajectory but failed to make any mention of the immediate consequences for the common man. Finance Minister Pranab Mukherjee has done little to address rising inflation and has put additional burden on us by bringing health and diagnostic services in private hospitals under the service tax regime. Besides, a central excise duty of one per cent has been imposed on 130 additional items. Whatever little relief was given on the income tax front will be offset by an increase in prices of essential items. The net purchasing power of the middle class will be lower in the pre-budget days.

Mahesh Kapasi, *New Delhi*

Eye on Polls

Pranab, the Clever (Cover story, March 20) shows the finance minister's compulsions as the Congress Party's principal troubleshooter — to strike a balance between politics and policy. The upcoming assembly elections in five states (where either the Congress or its allies are looking to make inroads) have prompted Pranab Mukherjee to take several token 'populist' measures in Budget 2011-12. Increasing the tax exemption limits for all, especially senior citizens, was one such attempt. But, while reiterating the need for continuation of the reforms agenda, the budget lacks major announcements on this front. The introduction of service tax on hotels, AC restaurants and air travel was a negative for the hospitality sector.

Lopamudra Dey, *Noida*



"The Finance Minister has done little to address rising inflation and has put additional burden on us by bringing health and diagnostic services under the service tax regime"

Mighty Bugs

Finally, we see some attempt being made to help our farmers reduce costs while providing a long-lasting solution for pest management. *The Bugs Stop Here* (BT, March 20). Indian Council of Agricultural Research lab is doing a great job on the unique project. The parasitoid usage and release is environmental-friendly, safe and economical. For long we have seen how chemicals like endosulfan have adversely affected farmers in Kerala.

Bithi Dutta, *Puducherry*

AGRICULTURE Pests

The Bug Stops Here

Insects released by an Indian Council of Agricultural Research lab are saving crops worth crores, ET S.K. SUCHSMITHA

COFFEE BERRY BORER — ₹50 crore

SPIRALLING WHITEFLY — ₹100 crore

WOOLLY APHID — ₹365 crore

COTTON MEALYBUG — ₹500 crore

PAPAYA MEALYBUG — ₹500 crore

www.businesstoday.in@coverstory: *Pranab, the Clever (BT,* March 20) is an analysis of the Union Budget and how will it affect India's growth story.

www.businesstoday.in@coverstory: *Tied Down Economy (BT,* March 6) on India's big challenge – sustaining the economic growth rate.

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BT writer **Anusha Subramanian** travels to Jaitapur to track the controversy surrounding the site of a proposed nuclear power project.

- Read her breaking news stories on protests and arrests
- See a slide show of the area

businesstoday.in/jaitapur

After the Budget

Read all three budget analysis columns by *BT* editor **Chaitanya Kalbag**

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Blogs

Anusha Subramanian on the new popularity of old Hindi songs as ad jingles.

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Suman Layak Is a deal between the Ambani brothers in the works?

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Anand Adhikari Big ideas emerge as business leaders meet in Mumbai.

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Telecom Tangle

The 2G scam, or the Raja scam — by any name, its scope is shocking. **Kushan Mitra** traces the behind-the-scenes development of a major scandal.

businesstoday.in/2G

The Paper Trail

The production of paper, one of the world's most common office supplies, is actually a difficult ordeal that takes nearly 10 hours.

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› Business Tips
Hot tips to keep you ahead of rivals in business.

FOCUS

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24 New Internet Revolution
28 Steely Resolve Melts

Say Yes to Strategic Philanthropy

Bill Gates and Warren Buffett will be in India together shortly to persuade the wealthy to donate to philanthropic causes. Ashok Alexander, *Director, India Country Office, Bill and Melinda Gates Foundation, writes on why philanthropy should be strategic, and the cause dearest to his heart.*

Can philanthropy be strategic? It not only can; for donors who want to ensure the very best use of their money, it must be. To be strategic, philanthropy should have a clear focus and be efficiently administered to maximise impact. Strategic philanthropy usually involves partnerships that ensure sustainability, and that recognise the catalytic role donors can play in addressing important issues and furthering complicated work. Smart philanthropy does not seek perpetual funding opportunities. Rather, it looks for skilled partners on the ground, with deep knowledge and experience, and then seeks to step in with support to fill gaps that might otherwise go unaddressed.

Ultimately, smart philanthropists seek a return on their investments. The return they seek is not monetary, of course. Rather, they seek progress in over-

From left: Warren Buffett, Melinda and Bill Gates

ALEXANDER'S TAKE

- Strategic philanthropy is imperative for donors to ensure the very best use of their money
- Philanthropy should have a clear focus, and be efficiently administered to maximise impact
- Strategic philanthropy usually involves partnerships that ensure sustainability
- Donors can play a catalytic role in addressing important issues
- Smart philanthropy does not seek perpetual funding opportunities
- There is a need for skilled partners on the ground

coming challenges that others might see as intractable. They seek to spark progress in fields that others might view as stagnant. They learn from these investments, share that learning with the field, and continue to look for opportunities to fund progress.

This approach has brought about great progress in several important areas around the world. In global health, we have seen important progress in the fight against HIV/AIDS, for example. And we stand on the brink of eliminating the scourge of polio from the world, because of smart philanthropic investments and strong partnerships with a broad range of organisations and governments.

The list of worthy causes for strategic philanthropists to support is long, and includes the environment, wildlife, clean water, climate change and education. There is no hierarchy of causes and there are many opportunities to give and achieve lasting positive impact.

Choosing which causes to support, however, is another key component of smart strategic philanthropy. On this point, I have a clear bias. To me, there is no greater cause than saving the lives of almost two million children who die in our country before the age of five. For philanthropists looking for a noble cause to support, let me make the case.

Consider the facts. About a million children die in the first month after birth. Almost another million die from the second month of life to the age of five. Even if a poor child in India survives into her sixth year, she could well be malnourished, as are 45 per cent of Indian children.

The tragedy — and the opportunity for philanthropy — is that most of these deaths are preventable, with a strategy that goes "from minus nine to sixty months" — from the time a woman conceives to the point when her child is five years. The pregnant mother must have access to good nutrition, three antenatal check-ups, and an institutional delivery. The newborn must essentially receive exclusive breastfeeding. Beyond that the child must receive good nutrition, and a full suite of vaccinations. India's national programme delivers a very rudimentary set of vaccines. Vital life saving vaccines that exist elsewhere and that can prevent hundreds of thousands of deaths from meningitis, diarrhoea and pneumonia are not included in the national programme. They are held up by well meaning, but misguided activism, and a lack of attention to some of the problems that affect the poorest among us.

The solutions to this huge problem of child deaths are simple and well known. What is required is a strategy to scale up known solutions and a game plan for sustainability.

Enter philanthropy. Let the stream of new philanthropy in India give way to a tidal wave! Smart and strategic giving can help take us from minus nine to sixty, and well beyond.

Speedbreakers Ahoy!

RBI's high interest rate policy is weighing down industrial production without reining in inflation. BY MANU KAUSHIK

Interest rate hikes take their toll...

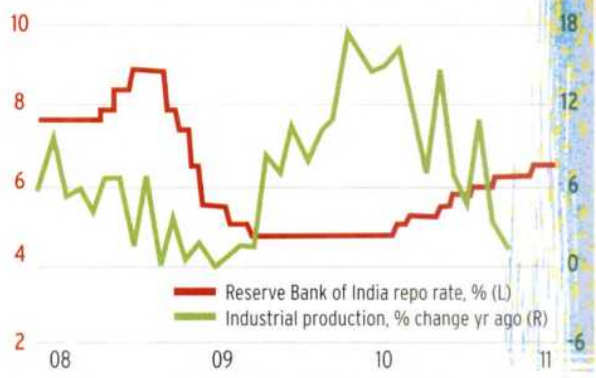
It is quite clear now that the hard interest rate regime pursued by the Reserve Bank of India, or RBI, has started to slow down industrial production. Moody's Analytics observes in its recent report: "Industrial production growth (in India) has slowed moderately over the past 18 months, from a high of 18 per cent year-on-year in December 2009 to 1.6 per cent in December 2010." And it expects manufacturing to remain subdued in the first half of 2011.

This was anticipated by analysts. The central bank raised key interest rates six times last year. In its quarterly monetary policy this January, the apex bank again raised repo and reverse repo rates by 25 basis points, following which many public and private sector banks once more adjusted their lending rates in areas such as corporate credit, home loans and auto finance. Higher interest rates impact industrial growth in two ways — they slow down commercial borrowing and dampen household demand for consumer goods as well as business demand for capital goods.

... And will impact the India growth story...

High inflation and high interest rates could hurt GDP growth in 2011/12.

Higher Interest Rates Crimp Production Growth



Sources: Reserve Bank of India, Central Statistical Office-India

"If inflation remains above the government's tolerance levels, we can expect three more interest rate hikes (at least a 75 basis points increase) in the near future," says Abheek Barua, Chief Economist of HDFC Bank, adding that RBI'S strategy to compress demand to control inflation is weighing on India's economic growth.

Although the government in its annual budget projected India's economy to grow at about nine per cent in the next financial year, experts feel it will be difficult to achieve that target. "The rate of GDP growth will come down to eight per cent in 2011/12," says Barua. Moody's Analytics expects industrial production growth to improve in coming months but there is little chance of it touching the high of 2009 again this year.

... Even as inflation remains high

Meanwhile, despite the efforts by RBI, inflation continues to remain obdurately high. The Wholesale Price Index, the main inflation gauge, rose 8.23 per cent in January from a year earlier, higher than the four to five per cent both RBI and government would like it to be. Even though core inflation has slipped a bit in the past few weeks, the rate of food inflation has rarely fallen below double digits since June 2009. Experts think the annual budget has done little to address supply constraints — the key reason behind the high inflation numbers.

WORDSMITH

(NEW WORDS IN BUSINESS)

Bluebird

Bloo-burd

What it means: Bluebird is defined as an unexpected or a very profitable sale in business.

Origin: Bluebird is defined as 'happiness' by the Oxford English Dictionary and its origin dates back to 1909. It has been increasingly used in corporate circles in the past few years.

Usage: The company's game plan to widen its customer base ensured some bluebird sales.

Now, Health Insurance Portability

Come July, India's 10 million health insurance policyholders will be able to switch insurers, as easily as mobile phone owners can switch operators. BY MANU KAUSHIK

What will change...

The Insurance Regulatory and Development Authority, or IRDA, is busy ushering in health insurance portability. Its guidelines will allow policyholders to switch insurers without compromising on many key terms and conditions in the policy such as the minimum sum insured, pre-existing disease cover and no-claim bonus. Insurers normally reimburse claims on pre-existing ailments only if a customer stays with them for a minimum period of two to four years, known as the waiting period. Under IRDA's forthcoming ruling, policyholders switching loyalties to another company can adjust their previous policy's waiting period with the new one.

RAJAT BARAN

... Its benefits...

The decision will come as welcome relief to customers who are not satisfied with the service standards of their insurance companies. Portability will also help people relocating to another part of the country where their insurance company may not have a presence. The move is likely to increase competition in the sector and force players to focus on service quality and product innovation.

... And its inherent limitations

Portability does not mean that all the benefits and entire coverage from one health care plan will be carried over to another plan. While switching insurers, the customers will have to abide by some new rules. "While the switching facility will be given by insurers, the premium rates and policy features will differ between them," says Antony Jacob, CEO, Apollo Munich Health Insurance. For instance, Apollo Munich policies have no sub-limits for categories such as room rents, doctors' fees and diagnostics. But its customers will automatically lose this benefit if they switch to another insurer's policy that has sub-limits.

Portability, then, will not result in a huge churn in the industry immediately, say experts. "It will take some time for people to understand which product is best for them," says Jacob.

Global experience

Portability is common in many developed countries such as the US, Germany, Italy and Canada. In the US, it became a federal law in 1996 and has been a huge success.

NUMBERS OF NOTE

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Motorola XT 800

Smart and Pricey

Motorola has reinvented itself on the back of Google's Android operating system, but the Milestone XT 800 is possibly the most interesting device it has launched recently — the first dual-SIM (GSM+CDMA) smartphone in India. This device also has a genuinely fast processor, great screen resolution, a good camera, smudge-proof gorilla glass, and an excellent build quality. However, there are also many aspects, such as its decision to load an older version of Android (version 2.1) onboard, in which it could have done a lot better. Its battery life is also an issue, when both the SIM cards are loaded while running applications. And it is also the most expensive dual-SIM device on the market. Had Motorola developed this handset with a single SIM card slot, improved battery life, loaded Android 2.3, and sold it cheaper, it would possibly be among the three best Android devices in the market today.

- ⊕ Two SIM card slots – in case one network goes down, great build quality, excellent feature set
- ⊖ Is there a need for an expensive dual-SIM smartphone?

Price: ₹Rs 31,990

All-rounder

This player plays back most formats, including all high-definition ones, without any difficulty. If you bought the wireless adapter to connect to your home Wi-Fi network, or connected your Ethernet Internet cable into the box, you could play YouTube videos off the Internet as well. In fact, the WD TV Live Hub is rather pointless unless you connect it to a network which allows it to stream videos stored onboard its one-terabyte hard disc to multiple televisions (if they run off a Wi-Fi network) and computers in the house. Can it manage that? Yes, it can and it does, allowing different users to view different content stored on board. Setting it up is not too much of a problem. However, the hyperactive remote control is a problem, making selections almost impossible. But if you want a wireless entertainment hub in your house, the WD TV Live Hub is possibly the only product available in its class in India.

- ⊕ Stream media anywhere inside your house, play back content in full 1080p high-definition
- ⊖ Pesky remote control; overkill, if you view HD through your TV's USB port

Price: ₹11,999

WD TV Live Hub

COMPILED BY KUSHAN MITRA

The Perfect Gift For Every Occasion

ery joyful occasion deserves a celebration
d every celebration, a gift:

Festivals • Promotions • Achievements
Appreciations • Conferences • Inaugurations
Birthdays • Anniversaries etc.

oosing an appropriate gift often poses a challenge. Choose a gift that will appreciated, used and remembered by the recipient, for a long, long time l at the same time, reflects well on you, the giver. Gifting chocolates, sets or greeting cards is cute but the memory of it melts away in a hurry.

senting ADD Gel Classic In a rich, classy, contemporary design, with world's most advanced spring-point Gel Roller technology. A perfect that will be appreciated for a long, long time. Each pen comes in an active see through box pack.

ADD® Gel Classic™

ADD® Gel Product: India's Only Premium Pen Brand
ders in writing technology

Corporate & Gifting bulk enquiries, please contact ADD Corporation Ltd.

Invitation Price:
₹100/-

BT-CARMA

CEO Watch

INDIA'S AND THE WORLD'S MOST TALKED-ABOUT CEOs IN FEBRUARY

Anil Ambani

RAJAT BARAN

Anil Ambani was once again the most tracked CEO by the Indian media in February. (He won the distinction in January too. See *Business Today*, March 6, 2011.) The Anil Dhirubhai Ambani Group, or ADAG, was under the spotlight for its alleged involvement in the 2G spectrum scam. Newspapers focused on the group's links with Swan Telecom and alleged violations of 2G licensing norms. Ambani's appearance before the Central Bureau of Investigation was extensively covered. The bear hammering of the ADAG stocks also kept him in the news.

Sanjay Chandra, Managing Director of Unitech, is a new entrant to our list. Again, for the same reasons. He, too, received media attention for his alleged role in the 2G scam and his grilling by the CBI.

TOP 10 INDIAN CEOs

Mukesh Ambani

Sanjay Chandra

Rank	CEO/Company	No. of Stories	
1	Anil Ambani/ ADAG	84	▲
2	Mukesh Ambani/ Reliance Industries	20	▼
3	Ratan Tata/ Tata Group	19	▼
4	Sanjay Chandra/ Unitech	9	NEW
5	Chanda Kochhar/ ICICI Bank	6	▼
6	S. Gopalakrishnan/ Infosys	6	▼
7	O.P. Bhatt/ State Bank of India	5	▼
8	M.D. Mallya/ BoB	4	NEW
9	N. Chandrasekaran/ TCS	4	▼
10	Rahul Bajaj/ Bajaj Auto	4	NEW

TOP 10 GLOBAL CEOs

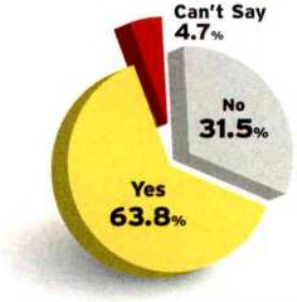
Bob Dudley

Josef Ackermann

Rank	CEO/Company	No. of Stories	
1	Rupert Murdoch/ News Corp.	65	▲
2	Bob Dudley/ BP	38	▲
3	Robert Diamond/ Barclays	38	NEW
4	Josef Ackermann/ Deutsche Bank	37	NEW
5	Steve Jobs/ Apple	32	▼
6	Lloyd Blankfein/ Goldman Sachs	31	NEW
7	Duncan Niederauer/ NYSE Euronext	29	NEW
8	Warren Buffett/ Berkshire Hathaway	26	▼
9	Jamie Dimon/ JP Morgan	25	▼
10	Eric Schmidt/ Google	24	▼

Q.

Will a Joint Parliamentary Committee help to untangle the telecom mess?



Results of *BT* online poll; No. of respondents: 171

A clear majority of respondents feels a JPC will indeed crack the 2G spectrum scam. Despite the investigations already on – one by the Public Accounts Committee of Parliament, another by the Central Bureau of Investigation, overseen by the Supreme Court – they feel a JPC will be more effective.

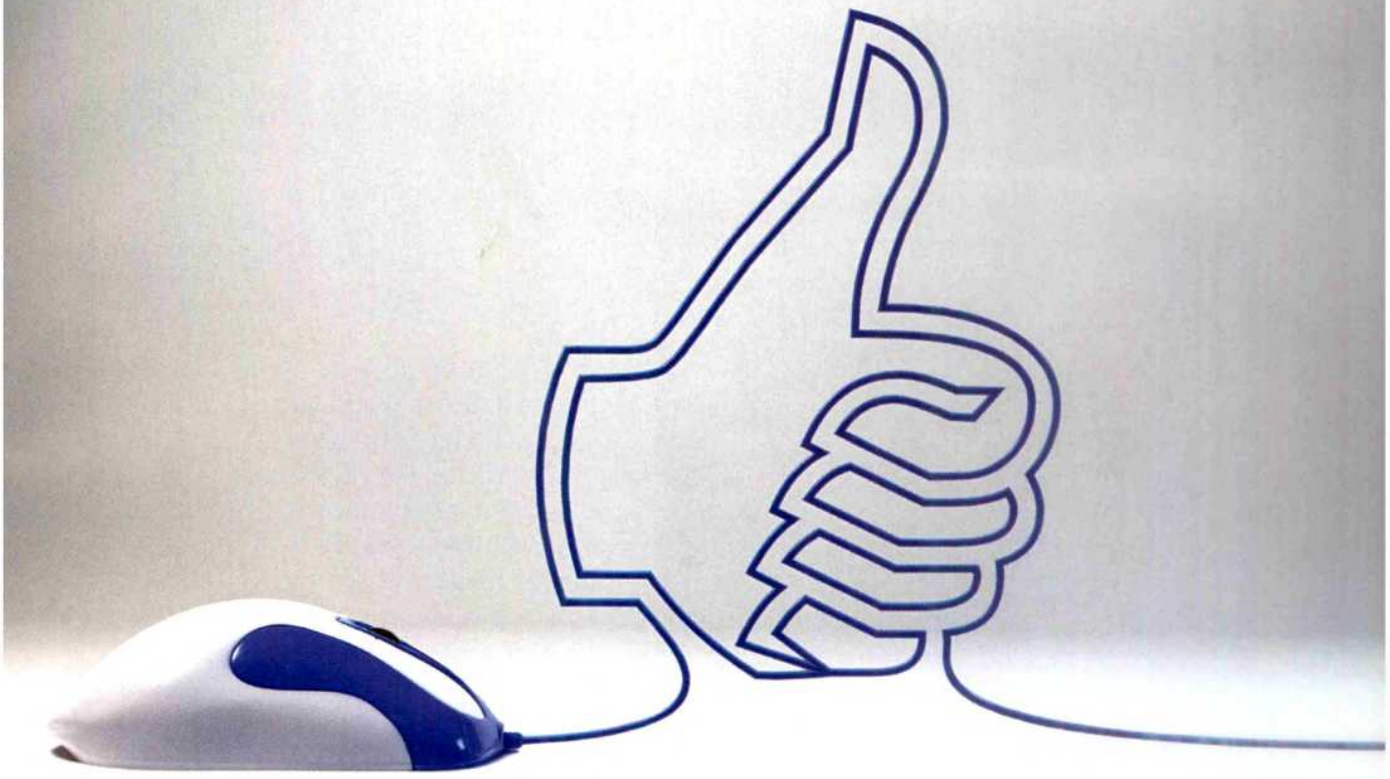
This is despite the mixed track record of earlier JPCs. There have been four in the past, formed to probe respectively the Bofors kickbacks, the Harshad Mehta scam, the Securities scam and the pesticides in soft drinks controversy. None of them made any earthshaking revelations.

Next poll question:

Will the government be able to meet the fiscal deficit target set in the Union Budget?

Log on to www.businesstoday.in to cast your vote

The Preferred Choice for IT Outsourcing.



NIIT Technologies ranked among the Top 3 globally.

Ranking	Service Provider
1	Acxiom
2	CIBER
3	NIIT Technologies
4	iGATE
4	Critigen
6	Microsoft
7	Infosys
8	Logica
9	British Telecom
10	Oracle
11	Orange Business Services
11	Dell
13	Capgemini
14	HCL
15	AT&T
16	Accenture
16	Telstra
18	Telefonica
19	IBM
20	Siemens IT Solutions and Services

Source: Black Book of Outsourcing

Leading independent global benchmark with outsourcing has ranked NIIT Technologies No. 3 among all IT outsourcers in the world. The Datamonitor Black Book of Outsourcing 2010 represents the largest investigation into customer satisfaction with outsourcing.

Delivering customer value, as a result of its sharp focus on select industry segments, has resulted in NIIT Technologies being the preferred choice for IT outsourcing with satisfaction levels ahead of the largest players in the industry.

The voice of our customers is clear.
To know how we help our customers stay ahead, visit www.niit-tech.com

NIIT technologies

SHEKHAR GHOSH

"Reforms are not a one-shot exercise, they have to be pursued continuously... I can do more, when I have the space to do more."

Pranab Mukherjee, *Finance Minister, at a post-Budget meet with industry chambers*

"We have to be careful about calling something the ultimate trend. Social media is an interesting space. But is it going to shut down everything else? I don't think so."

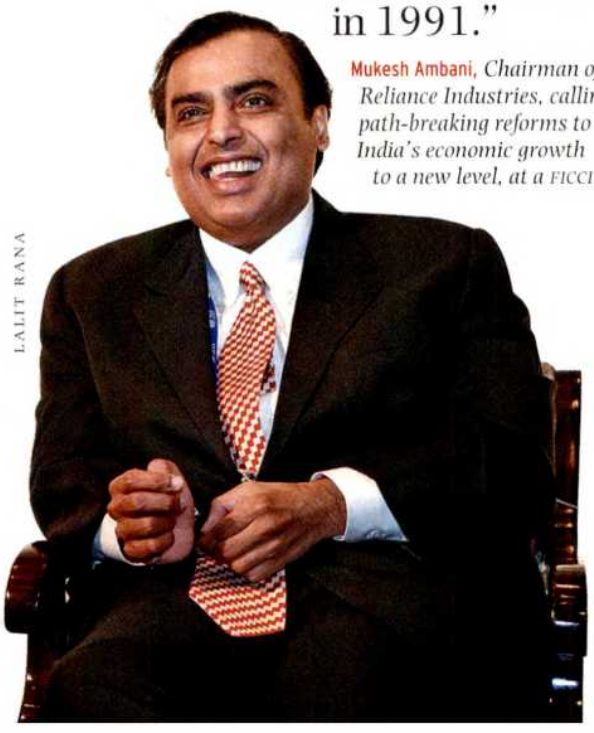
Nikesh Arora, *Senior Vice President and Chief Business Officer of Google, quoted by agencies*

"If you said 'choose one country in the world that you could expand into', that would be India. (If you said) 'you can have one pick and you can do whatever you like', it would be India."

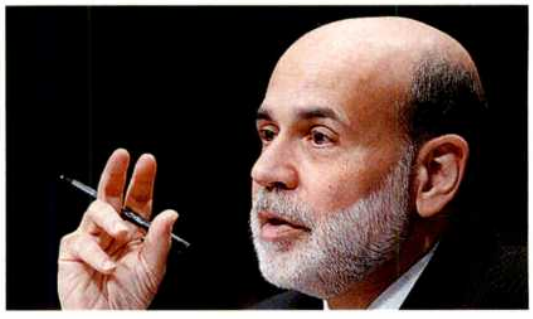
Douglas Flint, *Chairman of* HSBC, *on the bank's expansion plans in India, in* The Economic Times

"Mere policy reforms to incrementally affect the status quo will be meaningless... we will need disruptive policies, like the one which changed the future of India in 1991."

Mukesh Ambani, *Chairman of Reliance Industries, calling for path-breaking reforms to lift India's economic growth to a new level, at a* FICCI *meet*



LALIT RANA



"Until we see a sustained period of stronger job creation, we cannot consider the recovery to be truly established."

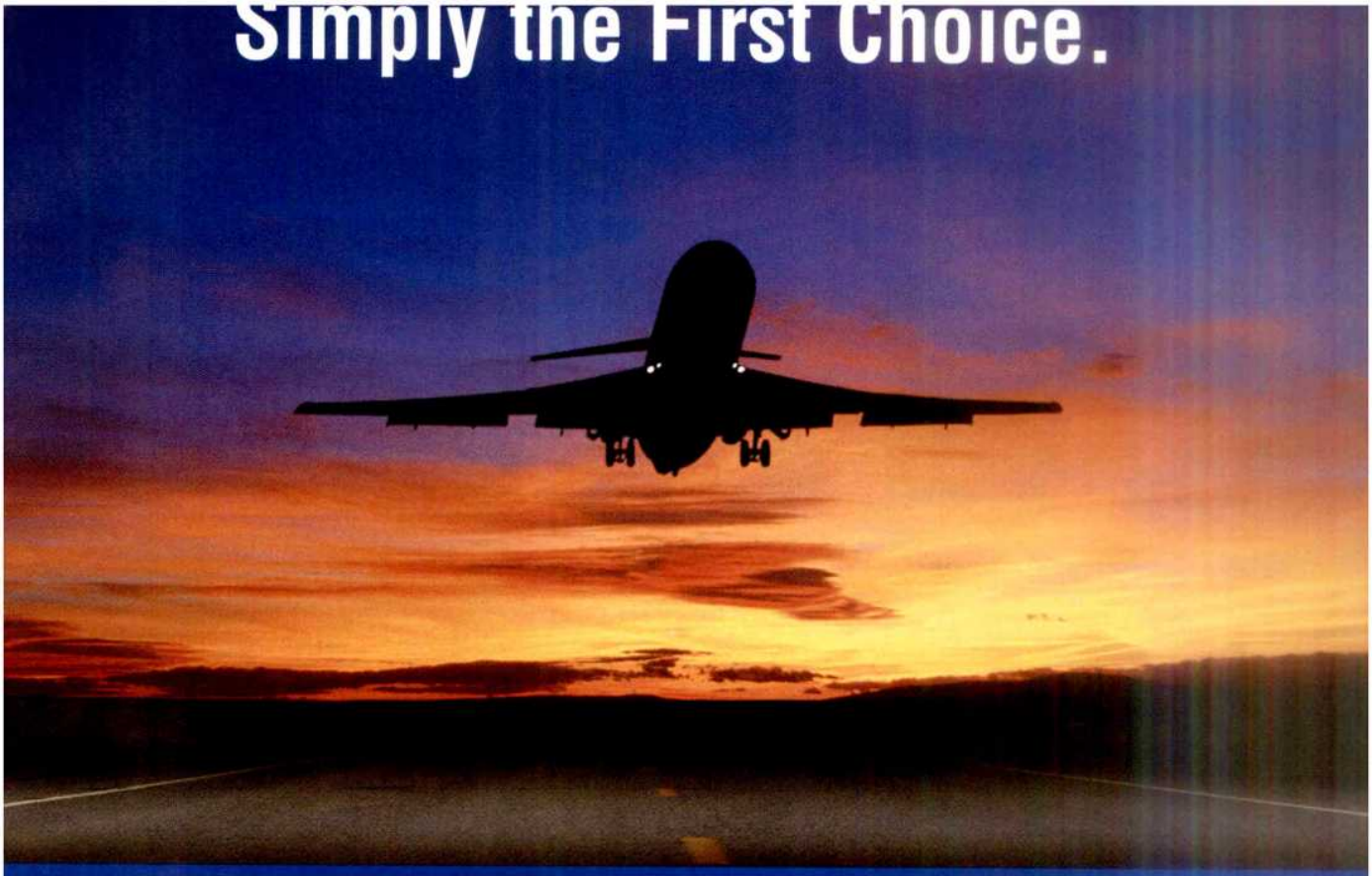
Ben Bernanke, *Federal Reserve Chairman, on the* US *economic recovery, quoted by agencies*

CLASSIC BUSINESS QUOTE

"Failures are great learning tools... but they must be kept to a minimum."

Jeffrey R. Immelt

Simply the First Choice.



NIIT Technologies ranked No.1 globally again in Datamonitor Black Book of Outsourcing 2010 Travel Industry Survey

2010	
Ranking	Service Provider
1	NIIT Technologies

2009	
Ranking	Service Provider
1	NIIT Technologies
2	TCS
3	Interglobe IGT

2008	
Ranking	Service Provider
1	NIIT Technologies
2	Oracle
3	ACS

Source: Black Book of Outsourcing

The Black Book of Outsourcing represents the largest investigation into customer satisfaction with outsourcing. This is the third year in a row that NIIT Technologies has been ranked No.1, ahead of all other outsourcers in the world - big or small.

Consistently delivering high customer value is a result of the company's sharp focus on select industry segments and specific domain specialisation. This has resulted in NIIT Technologies being the first choice of its customers.

The voice of our customers is clear. To know how we help our customers stay ahead, visit www.niit-tech.com

NIIT technologies

THE TOP 10 Most Watched Ads

February 2011

Complan — GRPs 1,516

1 Rank

Seconds on air: 514,055

Dove Conditioner — GRPs 1,007

2 Rank

Seconds on air: 376,245

Aircel Wi-Fi — GRPs 765

3 Rank

Seconds on air: 339,930

Uninor Cellular Phone Service — GRPs 721

4 Rank

Seconds on air: 444,650

Surf Excel Washing Mat Range — GRPs 701

5 Rank

Seconds on air: 303,620

Clinic Plus Shampoo — GRPs 679

6 Rank

Seconds on air: 336,395

Asian Paints Apex Ultimate — GRPs 678

7 Rank

Seconds on air: 221,290

Reliance Netconnect — GRPs 568

8 Rank

Seconds on air: 288,900

Horlicks Foodles — GRPs 564

9 Rank

Seconds on air: 130,150

Mirinda Orange — GRPs 553

10 Rank

Seconds on air: 151,020

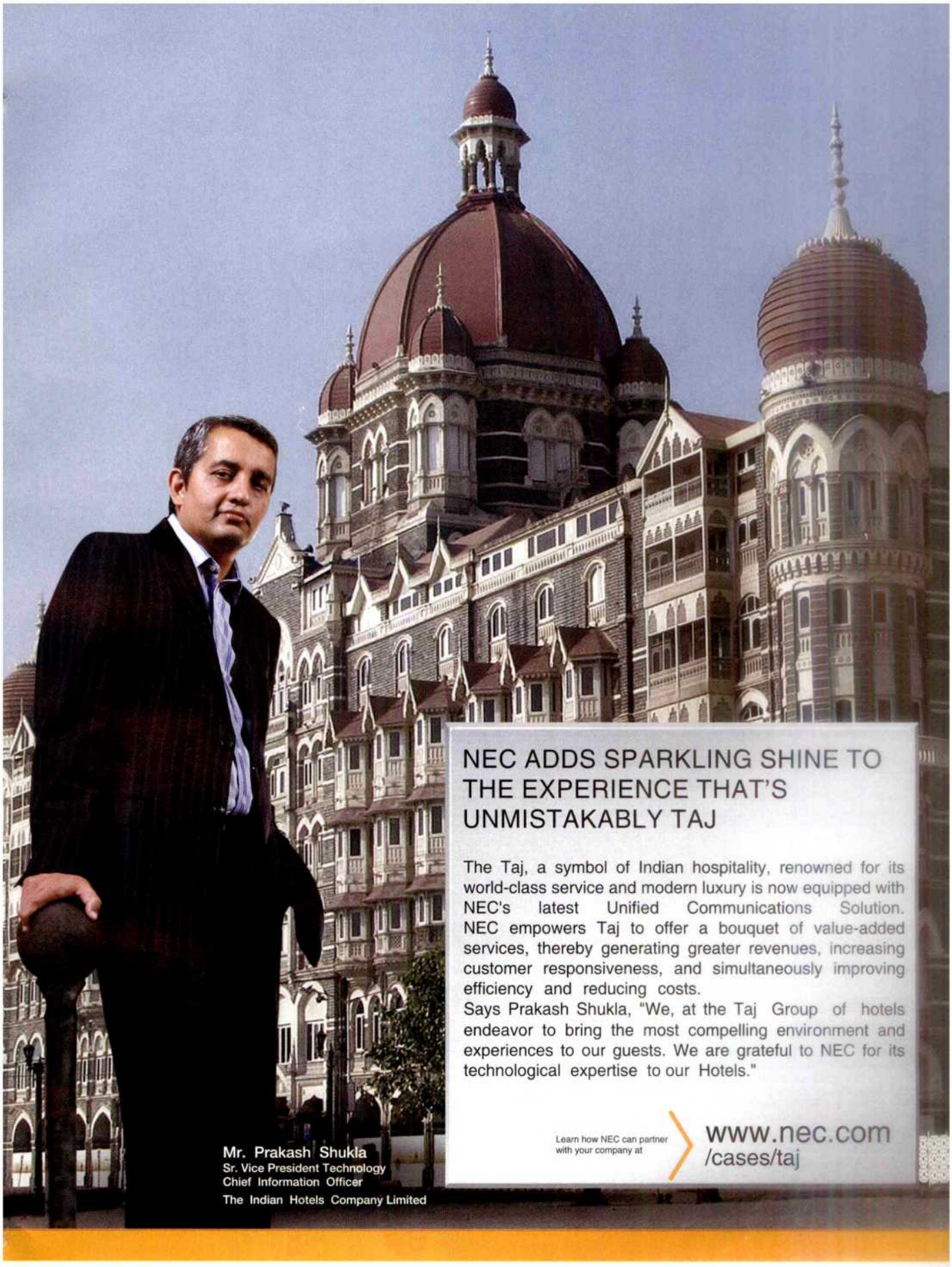
With some of the states going to elections soon, it is hardly surprising that the Bharat Nirman ad, showcasing the good work done by the government, is all over the airwaves. What is significant, though, is that it has muscled its way into the Most Watched list at No. 13, pipping the high-decibel 'India-Go' campaign of Hero and Lays chips' Saif-and-Dhoni ad. What seems to have worked is its catchy tune and happy faces across small-town 'Bharat' and a big promotion budget for the Directorate of Advertising and Visual Publicty, its maker.

COMPILED BY SHAMNI PANDE

... THE OTHER 15

RANK/BRAND		GRPs
11	Close Up Fire-Freeze	540
12	Sensodyne Toothpaste (GSK)	514
13	Bharat Nirman	506
14	Hero Honda Motorcycles	506
15	Vaseline Healthy White Body Milk	487
16	Lays Flavour World Cup	480
17	Cadbury Bournvita Plus Plus	467
18	Stayfree Secure Dry Ultra Thin	464
19	UltraTech Cement	461
20	Castrol	457
21	ICC World Cup 2011	452
22	SBI Life	452
23	Kissan Call Centre	446
24	ICICI Prudential Life Insurance	439
25	Airtel Digital HD	435

All India CS 4+Yrs; GRP normalised to 30 secs
To see ad duration, visit www.businesstoday.in
Source: TAM Peoplemeter System

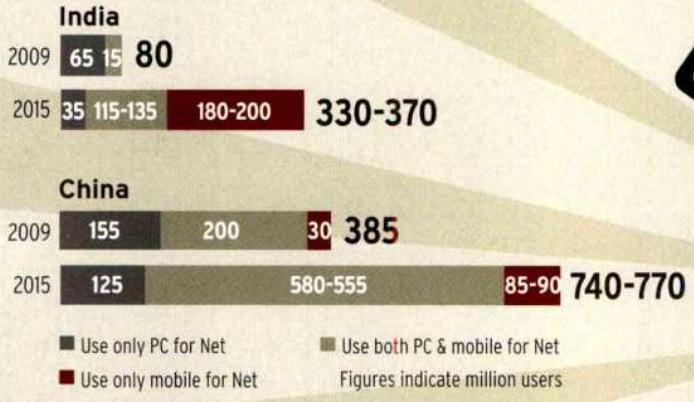


Empowered by Innovation NEC

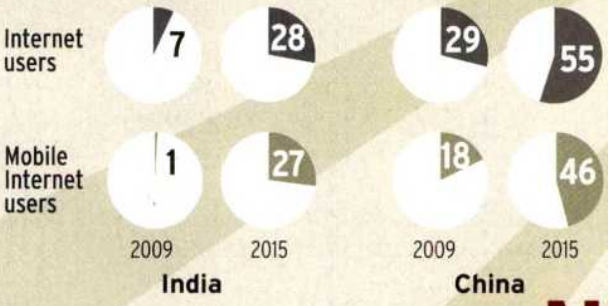
THE NEW INTERNET REVOLUTION

Asia's biggest emerging markets, China and India, will add 700 million Net users by 2015 to cross the one-billion mark. Much of it will be through mobiles, not PCs.

1 Only a minuscule number of Indians currently access the Net through mobiles. But there could be a quantum jump by 2015...



2 ... by then almost 30 per cent of the population will be surfing the Net using the mobile or PC, or both



5 STEPS TO HERE

GVK'S EXPANDING FOOTPRINT

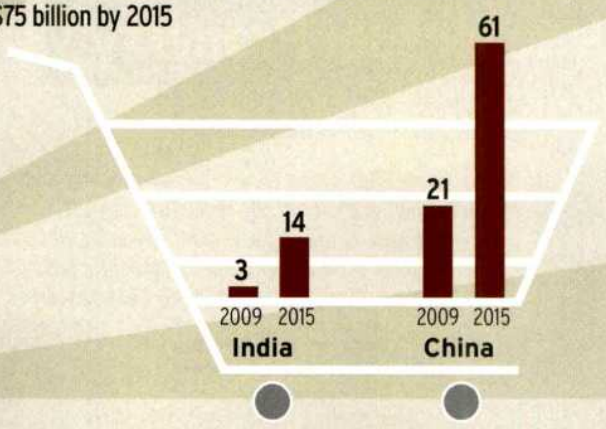
1

2006
GVK Group bags the contract for modernising the Chhatrapati Shivaji International Airport in Mumbai.

2

2007
It consolidates its power, road and airport projects under GVK Power & Infrastructure Ltd, or GVK PIL.

3 Volume of e-commerce in India and China could scale $75 billion by 2015

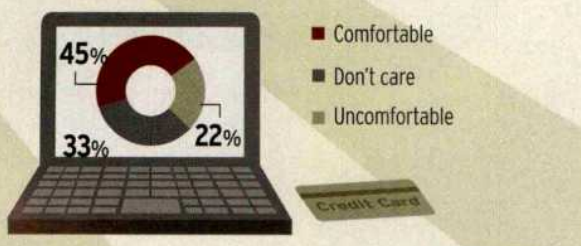


Figures are in $ billion

4 Already, a growing number of Net users in India are opting for e-commerce...

Based on a survey of cyber cafe users only

5 ... and are comfortable with online banking transactions



Source: McKinsey, IMRB International

GRAPHIC BY SANTOSH

BT Retro
April 22, 2007

Cricket Rip-off

THEN: "Cricket is a losing proposition in today's context and it is clear that we have to be careful when we decide to spend on the game the next time," says Venugopal Dhoot, Chairman of Videocon Group, echoing the sentiments of all the big spenders on the game. His company, which has Mahendra Singh Dhoni as brand ambassador, is one of the seven on-air associate sponsors for the 2011 World Cup. The scenario looks grim. With India out, the viewership numbers will almost definitely take a beating. "Eyeballs could fall by as much as 40-50 per cent," thinks S. Yesudas, COO of Media Direction, the media services group of RK Swamy BBDO. His agency has done the media buying and planning for BSNL, Raymond and VISA, among others. Sony Entertainment Television, or SET, the official broadcaster, has paid the International Cricket Council, or ICC, an estimated $250 million. Of this, about 30 per cent was lapped up by Indian companies, which now want out, or, at the very least, want discounts. But Sony rules out the possibility. "When you gamble at a casino, you can win or lose. You do not ask for a refund if you lose," says Kunal Dasgupta, CEO of SET. But advertisers are adamant. "Unless rates fall by at least 25 per cent, it will be hard to justify the spend," says Yesudas.

One formula that is being bandied about involves Sony offering advertisers more free commercial time, free sponsorships on other shows on the network or spreading out the funds committed beyond the World Cup.

NOW: Thanks to India's standing as favourites in the World Cup, the official broadcaster, ESPN, is expected to rake in at least ₹500 crore during the tournament.

3

2009
GVK PIL acquires a 29% stake in Bengaluru International Airport Ltd by buying out Zurich Airport's 12% stake and L&T's 17% stake.

4

January 2011
The group signs two MoUs with the Government of Indonesia to develop greenfield international airports in Bali and Java.

5

March 2011
It raises its stake in Mumbai International Airport Ltd by an additional 13.5% to take its holding to over 50%.

ANAMIKA BUTALIA

"India Has Underinvested in Intellectual Property"

DEEPAK G PAWAR\www.indiatodayimages.com

HORACIO GUTIÉRREZ is the intellectual property and patents chief of Microsoft. He spoke to BT'S RAHUL SACHITANAND *on the software giant's evolving views on IP and India's role in a globalising market for technology during his recent trip to Bangalore. Edited excerpts:*

There has been significant underinvestment in IPs by all sectors in India. Indian companies are underinvesting in the development of their own IP portfolios. In 2009, there were about 37,000 patent applications (filed) in India, compared to almost 400,000 in China last year. Only 20 per cent of applications in India were from companies. In China, it was 62 per cent.

The global IP landscape is evolving rapidly. The reality is that the pace of innovation in the technology world has accelerated very significantly. There really isn't a single company that can own all the IP elements necessary in order to sell its products or services. We are all interdependent on each other and trade IP rights. IP has become a kind of currency that companies use to trade with one another in order to bring our products to market.

There is an emergence of a new category of devices, which is an intersection of a pure feature phone and a personal computer. As these technologies converge, there is a process for determining how IP rights in these solutions are settled. There used to be open source on the one hand and proprietary on the other. Now, it is impossible to find a company that is openly open source or based on proprietary software.

The movement of innovation east is a reality. Microsoft employs 5,000 people in India, addressing some of the most thorny issues facing the technology industry. We know that a larger percentage of inventions at Microsoft involve people from China and India than they do in other technology companies globally.

"WELCOME BACK, PAL".

Go on out. An old friend is calling.

It's time to befriend the road again. To discover its joys without care or worry. To ride on tyres that make every twist and turn, every rough patch, feel like a warm welcome. Built with materials sourced from the world's best, and engineered to global quality standards, Apollo tubeless tyres are proven on world-renowned test tracks in India and Europe, like ATP Papenburg, Germany. And come with the assurance of puncture resistance, incredible grip, unmatched comfort and longer tyre life. Go on, make friends with the one who takes you places.

ASPIRE ACELERE AMAZER 3G MAXX

apollo

Unmatched Comfort • Longer Tyre Life • Superior Puncture Resistance | **The Road is a Friend**

APOLLO ZONES: Bangalore: Super Tyre World – 9844977707. **Cochin:** Global Tyres – 9447485664. **Patiala:** National Tyres – 9814040313. **Chennai:** Lal Tyres Pvt Ltd – 9841025028. **Rohtak:** Tyre Ghar – 9896212892. **Noida:** Ashok Motors – 9868259555. **Bhopal:** Arihant Wheels – 9425004745. **Delhi:** Speed Tyres – 9811786187. **Ahmedabad:** Maniar Tyre World – 9825006768. **Trivandrum:** Popular Tyres – 9447053838.

Capital/apollo/181

HOW THINGS WORK

All Is Not Well with Gmail?

If you were one of the 17,000 Gmail users who, last fortnight, logged into their accounts to find it empty, here's what happened, how the missing mails were later retrieved, and how to back-up Gmail:

CAUSE: Gmail released a storage software update that introduced an unexpected bug which wiped out information from select accounts.

HOW: Gmail's disaster recovery solution is its live replication, which means every action on Gmail is simultaneously sent to two data centres at once. Most times, if one centre fails, there is always the other as back-up. However, in this rare case, the software bug affected several copies of transferred data. The team at Gmail needed almost a week to restore the information.

BACK-UP: Apart from the two centres, Gmail also creates back-up on tapes that are offline. But while recovering mail from the online data centres is an almost instantaneous process, delving into offline back-up takes much longer.

RAJAT BARAN

DIY: To access your e-mail even when offline, select a programme that saves your e-mails to a hard drive or a secure storage site by using Gmail back-up or Fetchmail. Set up 'archive' e-mail, enable Gmail "Forwarding and POP/IMAP" in your settings, and select the option to download your mails. Save your changes after choosing to either let Gmail keep a copy or delete your e-mails once you've downloaded them.

JUST WONDERING

Steely Resolve Melts

What happened to ArcelorMittal's ₹80,000 crore worth promises? The world's largest steel manufacturer had promised to bring in the biggest-ever foreign investment to set up two steel plants with a total capacity of 12 mt, one each in Jharkhand and Orissa. But the Jharkhand government has so far offered only a minuscule part of the 10,000 acres of land required by ArcelorMittal. The Orissa project, too, has not picked up yet. Now, there is news that the steel giant is downsizing its investment by as much as 50 per cent for the first phase of its Indian projects. ArcelorMittal's competitor, South Korean steel giant Posco had to wait for six controversy-ridden years before it got approval from the Ministry of Environment and Forests this January to set up its own plant. Since 2005, almost 200 MoUs have been signed by mineral-rich states like Orissa, Jharkhand and Chhattisgarh, for projects with a total planned capacity of around 243 mt at a proposed investment of over ₹5.14 lakh crore, but only a tiny number of them have taken off.

COMPILED BY ANAMIKA BUTALIA, T.V. MAHALINGAM

QUIRKY

Number Game

Unlike Eathen Hunt in the *Mission Impossible* series, you do not need a prosthetic mask to get yourself a new identity. Nor do you need to pinch passports of unsuspecting tourists. All you require is the humble photocopier, Department of Telecommunications officials discovered. At first they were stumped when they found that a Delhi-based woman had 117 mobile connections in her name. A probe revealed the woman had not even applied for a mobile connection. All she did was get her voter ID photocopied at the neighbourhood Xerox shop. More copies were made than she asked for, and were surreptitiously passed on. And voila! Soon there were over 117 mobile connections in her name. All thanks to the photocopies.

SNOOT CORNER

Cigars

Traditionally, few things showcased masculinity as well as smoking a cigar did. Cigars lend an air of sophistication to the smoker and point to a refined lifestyle. They come in two distinctive shapes. Parejo cigars are rectangular with one slightly rounded end, while the Figurado ones are cylindrical and have a pointed cap. Figurados are more expensive. Even today, high-end cigars are rolled by hand. Cuba provides the best climate for growing good tobacco as well as the best artisans to craft cigars. Hence the tag that the best cigars are Cuban.

I am

firm believer
n the ability of youth
o lead change in Asia

onnie Screwvala
O and Founder of UTV Group,
uth Asia's leading media and
tertainment conglomerate.
nd one of Time Magazine's 100 Most
fluential People in the World in 2009.
gether with DBS,
is is Asia's time, this is Our time.

we are

the bank that shares your vision of the future – Asia's safest, Singapore's best

In the hustle and bustle of life, it's easy to lose focus of one's goals.

But not for Ronnie, who exudes a sense of confidence that's not only contagious but also inspiring, especially to today's youth.

As a bank born and bred in energetic Asia, we have a deep understanding of the media and entertainment sector and how it's shaping tomorrow.

For UTV, this has resulted in a financial partner who provides quicker and more efficient future-facing solutions. Giving them an edge in an intensely competitive industry.

And enabling them to forge strategic relationships, which power them across today's Asia. Into tomorrow and beyond.

www.dbs.asia

Awarded 'Safest Bank in Asia' by Global Finance in 2009 and 2010.
Awarded 'Best Bank in Singapore' by Euromoney, FinanceAsia and Global Finance in 2010.

BS Bank. Living, Breathing Asia

DBS

Seven Fatal Flaws in Our Tax Laws

The first budget of the new decade was a profound disappointment. The only welcome change was the introduction of the self-assessment procedure for imported goods. There are three main objectives of any budget — to modify the existing tax system, to achieve specific economic and social objectives, and to balance receipts and expenditure while making provisions for the government's deficit.

The first objective must have a close connection with the second, and any tax structure must be such that it facilitates faster economic growth and effective attainment of social objectives.

Unfortunately, every budget in our country seems to pursue a single-minded agenda of raising the tax rates without any concern for the manufacturing and service sectors. The manufacturing sector in India has been rendered uncompetitive on account of poor infrastructure, erratic power supply and a horrendous taxation system. Very often, our tax system makes it viable for a product to be imported from low-cost manufacturing hubs such as China. Similarly, the manner in which service tax is being levied will soon ensure that our services sector is also crippled.

There are seven fatal flaws which have now become a permanent part of our tax laws and the future looks very grim unless these are rectified.

Every budget in our country seems to pursue a single-minded agenda of raising the tax rates without any concern for the manufacturing and service sectors

Absence of impact assessment: There is no assessment of the impact of a new levy on a particular sector or the industry in general — who will be affected, how easy will it be to collect the tax, or whether the levy is equitable and fair. This year's budget, for instance, seeks to levy service tax on health care. All "hospitals with 25 or more beds that have the facility of central air-conditioning" will be brought under the service tax net. Every hospital with 25 beds is bound to have an operation theatre and therefore will have central air-conditioning in some part of the building. In fact, one way to avoid the tax is to install window air-conditioners and escape the levy.

Services in government hospitals are in a dismal state and the vast majority of the population is forced to go to private hospitals. Levying service tax on such a sector is reprehensible. The state has failed to provide basic health care and the least it can do is to avoid making it even more expensive. Another such example is the levy of service tax on commercial coaching centres. Once again, the teaching standards in our schools and colleges force parents to opt for extra tuition for their wards. It is equally unfair to levy service tax on such activity.

Excessive taxation: India continues to be the most heavily taxed country in the world if all direct and indirect levies are taken into account. The increasing trend of multiple levies of VAT and service tax on the industry has exacerbated the woes of the taxpayer.

Total uncertainty: The uncertainty of our tax laws makes long- or even medium -term planning virtually impossible. For example, excise duty was to be levied on branded jewellery in 2005. Detailed representations were made to the finance ministry pointing to the impracticability of such a levy and the proposal was dropped. Inexplicably, the item will now be taxed. The special economic zones, or SEZs, are also victims of such uncertainty and no unit in any SEZ knows exactly what is its tax liability for the next 12 months.

Complexity: It is ironical that every

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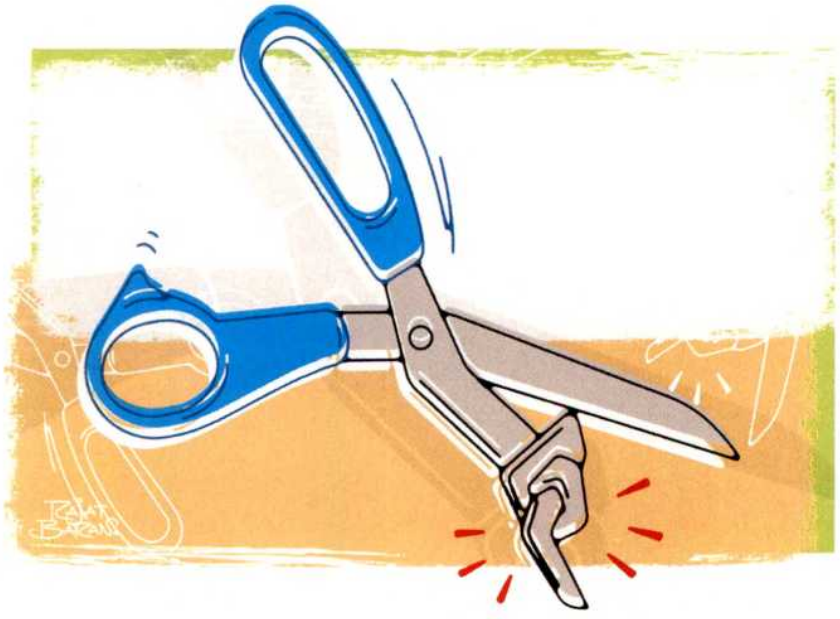
finance minister swears by simplification and rationalisation, and does just the opposite. The classic example is the new Direct Taxes Code, which is more complex and irrational than the Income Tax Act of 1961. Service tax, with its new set of rules framed in 2011, has now crossed the stage of complexity to become totally incomprehensible.

Absence of execution: In 1789, Thomas Jefferson, one of the founding fathers of the US Constitution and third President of the republic, stated that the execution of laws is more important than the making of them. However, in India, the failure to implement laws continues to be the single largest weakness of the tax system. This year's budget now makes prosecution possible for any service tax violation. But several prosecution provisions in the income tax, central excise and customs laws are virtually defunct as no prosecution is ever initiated. In the last 20 years, there are not even 10 cases where major offenders have been punished for any tax offence.



RAJAT BARAN

Rampant injustice in tax administration: The unfortunate reality of the central and state taxation is that those with money, muscle or political power are least concerned about obeying any tax laws. The organised sector is repeatedly harassed with frivolous showcause notices and absurdly high-pitched demands. To file an appeal, the assessee has to first deposit 30 to 50 per cent of the demand. If the appeal is allowed, the next nightmare is getting the refund. No attempt has been made to check the all-pervasive corruption in the tax departments.

Scant respect for the Constitution: The federal structure of our Constitution has allocated and distributed areas of taxation between the Centre and states. However, the practice of levying service tax on activities already subject to state sales tax continues unchecked as it is always possible to argue that a particular activity, although amounting to a sale, has also a service element and therefore can be taxed. The most shocking example is the levy of service tax on hire purchase and leasing transactions that are liable to pay sales tax. Similarly, the sale of packaged software, which is liable to VAT, is also subject to service tax.

This constitutional indiscipline has now infected state governments too. Software development is liable to service tax but some states are now seeking to levy sales tax or VAT on the ground that it also amounts to a works contract. Such double levy will surely render the software industry uncompetitive. The other pernicious practice is to retrospectively nullify any court or tribunal decision against the assessee.

If our manufacturing and service sectors are to be competitive, these seven fundamental flaws have to be eliminated. We can easily attain a 10 per cent growth in GDP if there is a proper tax system in place. The great German economist, Ludwig Erhard, converted post-war Germany into an economic powerhouse by simply giving adequate incentives through simple tax laws that were easily comprehensible and implementable. There is no reason why we cannot do the same. All that is necessary is to treat the power of taxation as a means to economic growth and not just collection of more taxes. ◆

The author is a senior advocate of the Madras High Court

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Pranab's CENVAT Googly

Businesses are generally happy with the recent budget as the tax rates (excise and service tax) have not been increased. However, on going through the fine print, it seems that the Finance Minister has pulled a few fast ones, much like Pakistani all rounder Shahid Afridi, when the batsmen — or in this case, businessmen — least expected it!

Take, for instance, the changes in Central Value Added Tax, or CENVAT Credit Rules, 2004, which allow manufacturers and service providers to claim credit on various central taxes paid on goods and services — or inputs purchased during their business operations. This credit can be utilised to offset the output excise duty or service tax liability of the manufacturer or service provider.

Internationally, under the Goods and Services Tax, or GST, regime, companies are allowed to claim credit on taxes paid on all legitimate business expenses. In India, the credit regime has often been characterised as restrictive, ad hoc and ambiguous. In this year's budget proposals, significant changes have been made in the credit rules for greater clarity. However, it seems the government has made these rules even more restrictive.

Consider this: credit for service tax paid on 'input services' will now be confined to services which have a more direct relation to the business activity of the taxpayer, with a few exceptions. Earlier, companies were entitled to claim credit for 'any activities relating to business', be it lease rentals, telecommunication charges or any other corporate expenses. This expression was often interpreted liberally by the courts and even by the tax authorities in some cases, but it is now proposed to be omitted.

Credit is also proposed to be denied on 'inputs' and 'input services' meant for personal use of or consumption by employees. In every business, especially that of the service companies — such as BPOs, financial service providers, consulting firms and so forth — a significant portion of expenses are employee related such as cab charges, cafeteria expenses and health insurance. This amendment may lead to denial of credit with respect to such expenses.

There's more. Trading (sale or purchase of commodities) will now be considered an 'exempt service', apparently with retrospective effect. Many businesses were of the view that service tax paid on common expenses was fully allowed as credit. Now, they will have to write off the service tax, to the extent related to trading activities.

Another major blow for taxpayers is the withdrawal of a specific provision that allowed companies to take full credit on around 17 specified services — such as consulting services, repair services, intellectual property services — even if they were used partly for exempt activities. This means that proportionate credit will now need to be reversed even for these services.

For businesses, all the expenses in the Profit & Loss Account will have to be reviewed to segregate those on which service tax paid will be allowed as a credit. This may also require changes in IT systems, accounting and other processes. Since these rules are coming into effect from April 1, companies do not have much time in hand.

How hard Corporate India will be hit is not clear because overhead costs vary from industry to industry but it would not be inaccurate to estimate that the impact could be between two and four per cent of overhead costs. Businesses will hope that this is a temporary phase and once the GST regime comes into effect, the government will align India's tax scheme with the best international practices. ◆

In India, the credit regime has often been characterised as restrictive, ad hoc and ambiguous. Some proposals in this year's budget have made the rules even more restrictive

Pratik Jain is Executive Director and Supriya Oberoi Jain is Director at KPMG. With inputs from Abhinav Srivastava, Manager, KPMG

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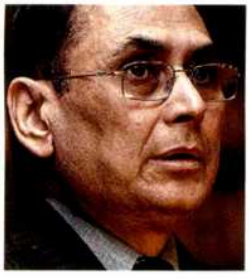


Crude Challenges

The price of crude has flared up sharply following the political turmoil in the Arab world. But even if peaceful conditions return soon and the Organisation of Petroleum Exporting Countries makes up for the fall in production by pumping extra oil, prices are expected to remain at around $100 a barrel or higher for the next couple of years.

The challenges for India, in particular, are serious and multiple. We faced a similar situation in 2008/09 when crude prices had risen to even higher levels. The situation was then managed on an ad hoc basis by abolishing the import duties on crude and reducing those on petrol and diesel; replacing the ad valorem excise duties on petrol and diesel by specific rates; raising the product prices marginally; and meeting the under-recoveries of the oil marketing companies by about one-third from upstream oil companies and the remaining two-thirds through Central government bonds. Since then, petrol prices have been decontrolled and import duties restored.

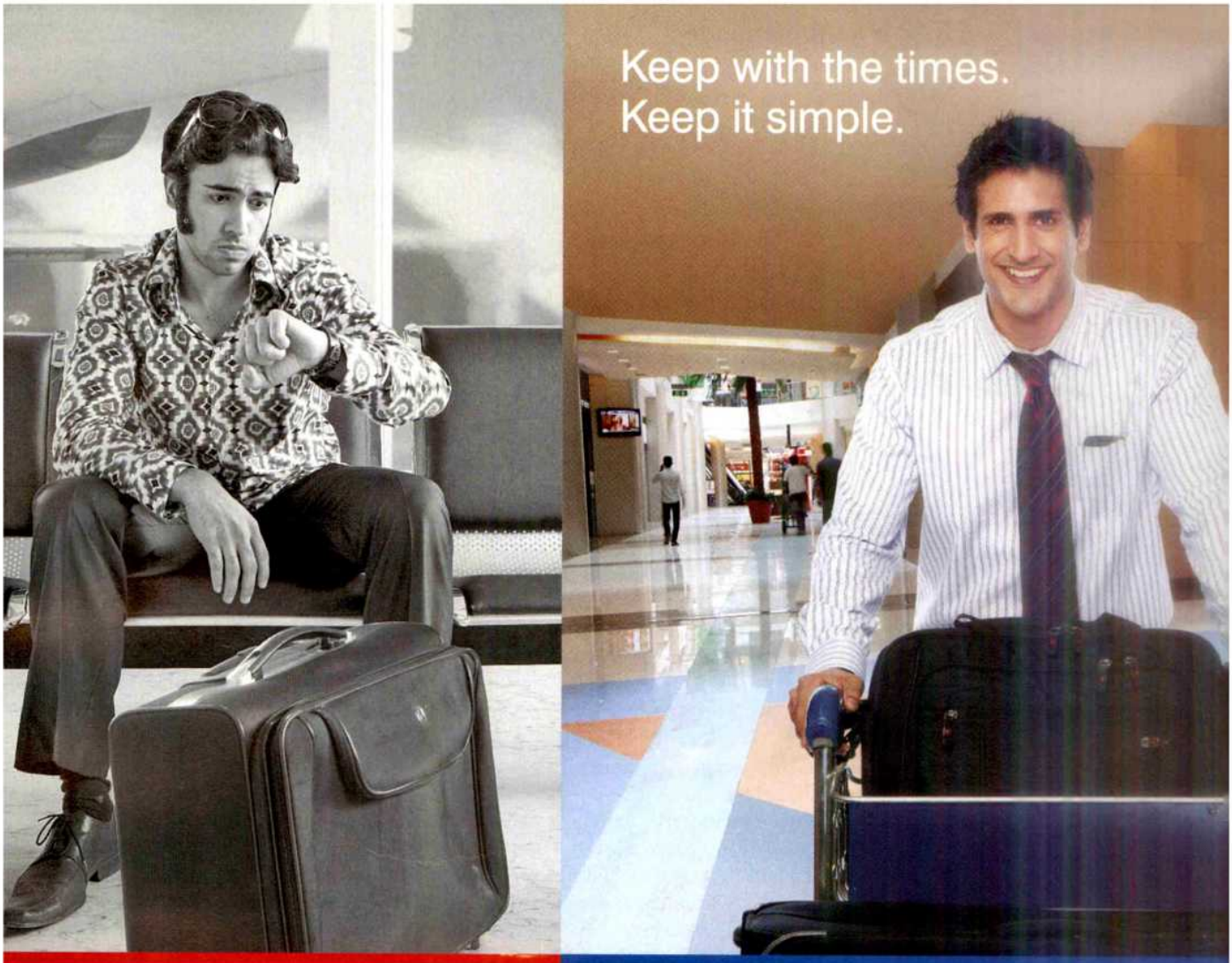
So, one option is to keep the product prices under government control and balance the interests of the stakeholders, as was done in 2008. Another is to decontrol the prices of diesel and kerosene as well, with built-in safeguards for the stakeholders. This can be done by taking the following steps: reverting import duties to 2008 levels; state governments replacing ad valorem sales tax by specific rates (pegged to a specified level of crude price, say $60 a barrel, since ad valorem rates at high crude prices would result in undue gains for the government at the cost of consumers); the Centre making the burden-sharing mechanism by oil companies transparent and formula-based (upstream PSUs may contribute a specified amount, say, 60 per cent of the incremental realisation when crude prices are above $60 and 80 per cent when crude is above $80. Downstream companies may contribute 50 per cent of the incremental rise beyond, say, $70 a barrel. The companies' contributions should go towards subsidising diesel). With such stipulations, it may be possible to decontrol diesel prices. Even so, if petrol/diesel prices seem too high for consumers, excise duty may be cut accordingly. It should be noted that in the absence of taxes, for every one dollar rise per barrel in international product price, domestic petrol and diesel prices would go up by only 30-35 paise per litre.

One option is to keep product prices under government control; another is to decontrol the prices of diesel and kerosene with in-built safeguards for the stakeholders.

Kerosene prices can also be freed if direct cash subsidies are given. Over 40 per cent of kerosene is estimated to go into the black market, so the allocation to the public distribution system may be cut by as much, reducing the subsidy cost significantly. (On LPG, the subsidy may have to be continued.) But in this way, prices of petrol, diesel and kerosene will stand decontrolled and the annual subsidy burden will be half that in 2008/09. The burden on oil companies will also be lower than in 2008/09.

The longer-term management of the oil situation is still more important. Four steps are imperative. First, diplomatic efforts need to be intensified to bring about an understanding between the producers and the consumers. Secondly, the efficiency of oil consumption in India has to be improved. Thirdly, our addiction to oil has to give way to diversification of the fuel basket. Fourthly, a new policy thrust to domestic exploration and production of oil and gas is overdue. The 2005 hydrocarbons policy, framed when oil prices were at half the current level, needs an imaginative revision.

The author is a former Petroleum Secretary



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Deregulate Diesel Prices

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Barring a swift resolution of the turmoil in West Asia or the release of strategic stocks by the International Energy Agency or IEA, crude oil prices will remain high in the coming months. It can be argued that the Libyan situation is temporary, and there is enough global supply to eventually tamp down prices. That would be a mistake. India itself needs to confront a structural problem — it now imports 80 per cent of its crude oil requirements. Oil production is growing modestly, thanks to new discoveries, but domestic refinery runs still outpaced oil production by 3 million barrels per day, or bpd, last year.

Domestic oil demand has been growing at an average of 4.9 per cent (140,000 bpd) in the past five years — strongest demand growth last year in Asia outside China whose coffers are deeper and energy mix more diverse. While India's rising crude oil needs are indicative of a growing economy, part of this is also due to huge subsidies to keep domestic oil product prices low. These price distortions encourage inefficient use of fuels and incentivise adulteration.

If India is serious about moderating its oil demand (and reducing the crude import bill), it has to deregulate diesel prices. This will allow our oil marketing companies to retail diesel freely and reduce under-recoveries. It will also encourage private refiners to more effectively participate in the retail oil market. We have already taken steps towards fuel deregulation. Freeing of petrol prices last year shaved almost 3 percentage points off petrol demand growth in just one year to around 12 per cent. However, petrol deregulation alone cannot make a dent in the total oil demand as it is only 10 per cent of the total consumption. Diesel takes the lion's share — about 40 per cent or just over a million bpd. So if we need to curb oil demand, we need to curb consumption.

Deregulation of diesel prices will allow state oil marketing firms to retail the fuel freely and reduce under-recoveries. The step will also encourage private refiners to more effectively participate in the retail market

One could argue that this will create inflationary pressures. But not raising oil prices will not check inflation either. If we do not increase oil prices, we continue to bleed the oil sector because the subsidy burden is borne by the oil marketing companies, upstream companies and the government — directly, or indirectly. That means there is less money for investment in oil exploration and other research and development efforts — a surefire way of undermining India's future supply capability. This also creates a long-term energy security problem. If you continue to subsidise the sector, and let the fiscal deficit rise, inflationary pressures will build in the long run. However, if we allow diesel prices (and petrol) to rise, there will be a short-term upward movement of prices, but not in the long run. This will actually encourage end-users to use transport fuels more efficiently.

Certainly, there are other ways to curb oil demand. Developing domestic natural gas resources is critical to increase in supplies, lowering naphtha and oil demand by industry. Non-conventional fuels can help replace oil demand, but our blended petrol and diesel industry is only a tiny fraction of the overall pie, and will take time to develop. The biofuel policy mandates a 20 per cent blending target by 2017. Meanwhile, supply concerns continue to dog the planned 10 per cent ethanol blending target. These, along with a focus on renewable sources of energy can, and should be, India's strategy to meet the growing energy demand over the long term. In the short term, however, the need of the hour is to quicken the pace of domestic fuel price reform. And that starts with deregulating diesel. ◆

The author is Associate, Energy Security Analysis, Boston

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Booster Shot

After the failed Parkway bid last year, Singh brothers of Fortis bounce back with a spate of global buys. Can they lead in the Asian healthcare market? BY E. KUMAR SHARMA

Sharp focusing and zooming in on opportunities comes naturally to this avid photographer. Malvinder Mohan Singh, Group Chairman, Fortis Healthcare, has looked at the world from behind camera lenses for close to 30 years now. Singh is also known for his big business deals. Be it the landmark deal involving Ranbaxy in 2008, where he and brother Shivinder Mohan Singh cashed out by selling their stake in the company to Japanese drug giant Daiichi Sankyo for a jaw-dropping figure of over ₹9,000 crore, or the more recent ones aimed at making Fortis a global brand, Singh has made big news every time.

In less than 150 days after his failed bid to buy Parkway, a leading Singapore healthcare firm, Singh announced plans to buy the business of Hong Kong-based Quality HealthCare in October 2010. (He made money on the Parkway deal too after a counter-bid from Malaysia's Khazanah.) In December 2010, he picked up a 30 per cent stake in Australia's Dental Corporation Holdings for ₹450 crore and followed this up with an offer in February to buy a majority stake. In February again, he acquired a cancer speciality hospital in Singapore for about S$33 million (₹115 crore). In March, he snapped up 28.6 per cent in Lanka Hospitals, a leading Sri Lankan entity, for an undisclosed amount, speculated to be upwards of ₹160 crore.

Fortis

BREATHTAKING PACE

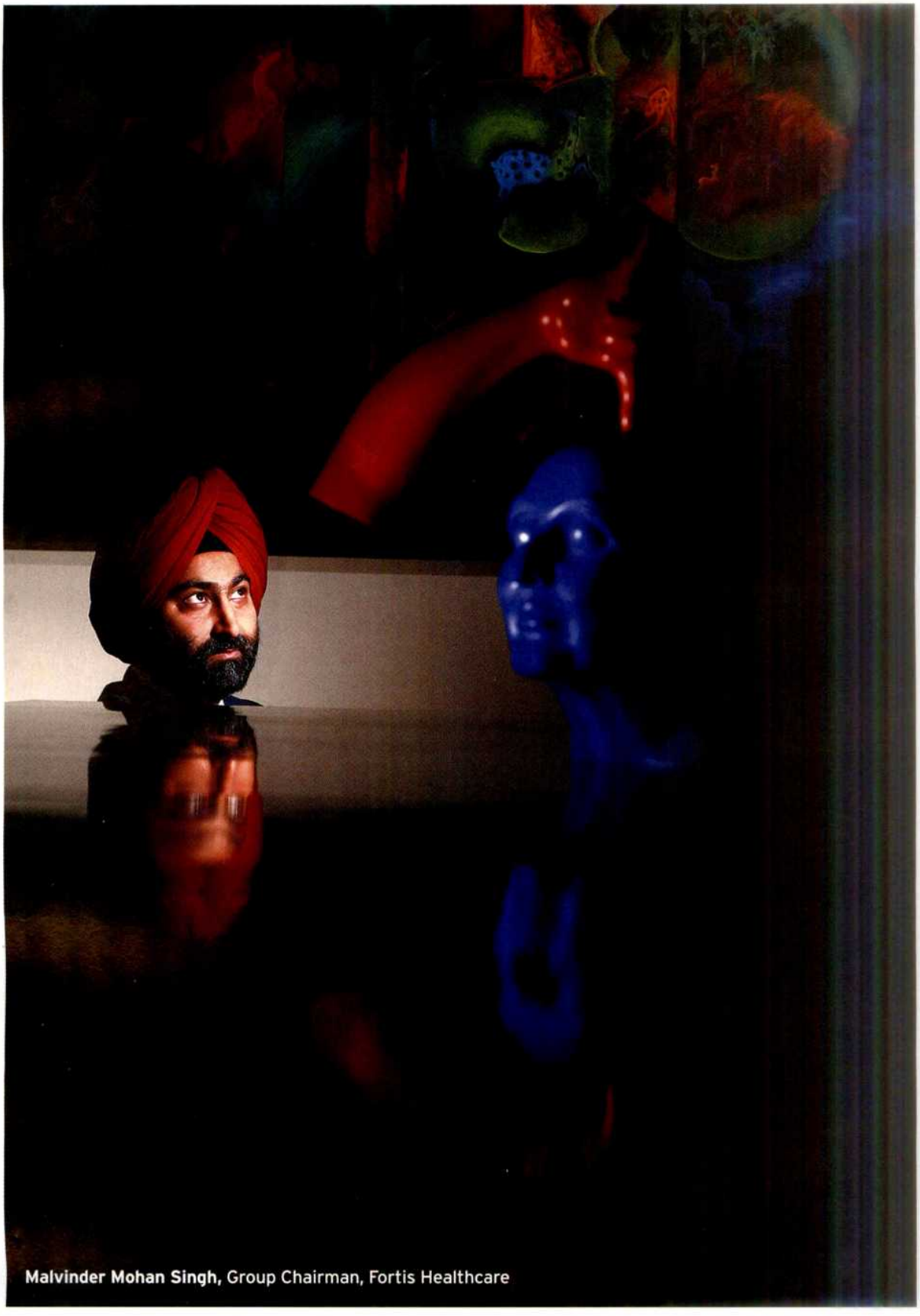
2001: builds first hospital in Mohali

2010: launches 3 greenfield projects simultaneously

2011: has 55 hospitals in India

There is more to come. "There are at least 20 deals that we are looking at today," Singh tells BT as he takes a short break from his busy travel schedule. The man, who also has permanent resident status in Singapore, has been spending much of his time travelling — closing or chasing deals.

So what's the big picture? "We want to be a leading integrated healthcare player in Asia," says Singh. Even as he steers clear of specific figures, his pace and appetite for big numbers is palpable. Today, apart from the forays into Hong



Malvinder Mohan Singh, Group Chairman, Fortis Healthcare

VIVAN MEHRA/www.indiatodayimages.com

MALVINDERSPEAK

Dealmaker Extraordinaire

Fortis's global acquisitions

On how opportunities are spotted:
My acquisitions are driven by a core team in Religare investment banking. They are mandated from Fortis to go and look for opportunities. They are our investment bankers and we are one of their biggest customers.

On the deals in the works:
There are at least 20 deals that we are looking at. As for India, we get dozens of proposals every week to either acquire or manage.

On global strategy:
We want to be a leading integrated healthcare player in Asia... Once you have scaled across multiple countries and across different verticals, you can keep your front-end business localised but the knowledge that you bring in (about running hospitals in these countries) is the intellectual property that is very substantial in value.

On sharing responsibilities with brother Shivinder Mohan:
Shivinder looks after the Indian part of the business and I look at the global part but we work together at the group corporate level.

Kong, Australia, Singapore and Sri Lanka, Fortis has a network of over 8,000 beds across 55 hospitals in India. That is an achievement given that its first hospital in Mohali came up only in 2001.

Apollo Hospitals, the other Indian biggie in this space, made its debut way back in 1983 in Chennai and has grown to 8,200 beds (5,600 owned and 2,600 managed) across 53 hospitals (36 owned and 17 managed) largely within India. It also has hospital presence in Mauritius apart from its Apollo clinics in West Asia. However, a comparison between the two may not be an ideal one as Apollo's growth has not really been as inorganic as Fortis's.

Global market ventures are fraught with challenges. Take, for instance, Fortis's deal with Lanka Hospitals. Earlier, Apollo was in a tie-up with the Lankan entity but exited four years ago, having sold its 30.63 per cent stake for ₹63.15 crore. In fact, the 2009 annual report of Lanka Hospitals says while the Apollo brand name was a plus point for the hospital in the global market, it offered few positives in the local market where perceptions of high cost, Apollo's non-Sri Lankan identity and it being less in tune with local healthcare needs apparently played spoiler.

Critics say, like Apollo, Singh will need to take on the local challenges in a foreign market and ensure a return on his investment. And this, without a major stake in Lanka Hospitals. "The Sri Lanka government today wants to do a lot of things in health care. We are committed to that market and this is an entry to working in that direction," Singh says while conceding that nothing comes easy.

Singh is upbeat about the market and does not seem rattled by

SHEKHAR GHOSH

Friends and rivals: Malvinder Mohan Singh with Apollo Hospitals MD Preetha Reddy

MALVINDER MOHAN SINGH

"There are at least 20 deals that we are looking at... We want to be a leading healthcare player in Asia"

local issues in the new countries he has entered that could include elements like local connect, identity, availability of doctors and the need to refurbish hospital equipment. Nor would he compare the return on investment from Fortis's overseas ventures to its Indian ones. Apollo declined to comment on both Fortis and the Lankan venture.

In many ways, Singh's Singapore investment — in a super-speciality, under-construction cancer hospital — seems unique. Obviously, the initial focus here is on spending and building rather than on returns. But then, Singapore, Singh has maintained, is a very important and highly developed healthcare market, and a hub in Asia. "This is important for us. It is a re-entry into Singapore and our first step in healthcare market there," he says.

Experts agree, pointing out that Asia, in particular Singapore, could be a very important market for health care. "Opportunities in the US and Europe are limited as health care there is state dominated. The focus on emerging markets, particularly Asia, could be a good bet for Indian companies," says G. Kali Prasad, Partner, Ernst & Young. The trick is to leverage presence in locations like Singapore to tap medical tourism, he adds. "Creating a big umbrella brand will also help attract talent, open up opportunities for outsourcing back-end work to India, cut costs and make Fortis a more competitive global player," he says.

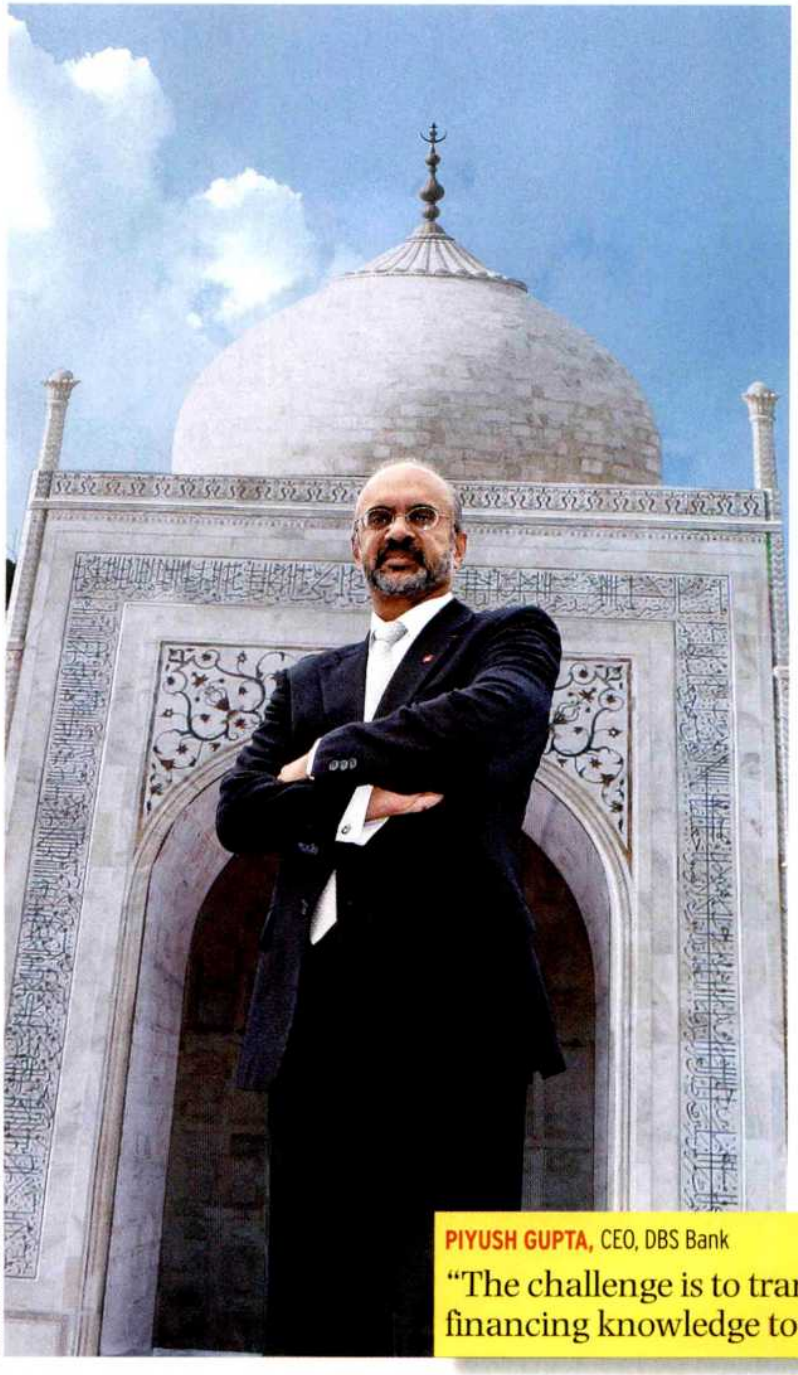
The risks of an inorganic growth model, be it in health care or any other sector, he says, typically relate to integration. In the case of health care, the key concern for global ventures will be the environment and quality of service.

Back home, in keeping with the trend of reaching out to smaller towns, Fortis, says Singh, has started with locations like Meerut and Moradabad in North India. Apollo too, under its Apollo Reach programme, has set up four hospitals in small towns and targets 250 facilities in the next five to seven years. "It is inevitable and essential that health care in these regions become organised, and therefore should be the way forward for entities like Fortis and Apollo," says Dr Ashwin Naik, Founder of Vaatsalya Healthcare, which is focused on tier II and tier III towns. While Naik agrees that the trend will lead to entry of professionals and improve healthcare standards in smaller cities, the flip side for smaller players like him would be increased competition. There will be fierce competition for talent in the short term as there is limited healthcare talent in India.

In a country where doctor-to-bed ratio is poor, talent shortage is an issue in both urban and rural India. It is perhaps time for Singh to train his lenses on talent and draw up a blueprint to play his part in building this scarce resource. ◆

Not Impressed

The RBI's renewed offer to foreign banks to expand in India gets lukewarm response. BY ANAND ADHIKARI



PHOTOGRAPHS BY LALIT RANA

PIYUSH GUPTA, CEO, DBS Bank

"The challenge is to transfer global commodity financing knowledge to the farm sector in India"

How do you define a tier-VI city in India?" The global CEO of a foreign bank asked recently at a meeting with his top management. Flipping through the Reserve Bank of India's 20-page discussion paper on a new regulatory framework for foreign banks in India, he quizzed his officials on the fine print. Among the raft of proposals, RBI has suggested the local incorporation of foreign banks as subsidiaries. Foreign banks in India currently operate only as branches of the parent banks. What made this CEO apprehensive was the priority sector lending stipulations — particularly agricultural lending. His bank at present has no exposure to agriculture and the bulk of his branches are located in the Indian metros.

The mood at the boardrooms of other foreign banks is no different. Many global CEOs of foreign banks, from Deutsche Bank's Josef Ackermann to Citi's Vikram Pandit, have been discussing the merits and demerits of converting their branch operations into a subsidiary during recent India visits. Most of them are lukewarm to the idea. The hurdles: high agricultural lending targets, compulsory local listing, and ambiguity on taxation and stamp duty-related issues.

The option to convert into

subsidiaries was given to foreign banks in 2005 as well but none of the three dozen odd banks then operating in India took the plunge. They had the same concerns then and saw little to gain in changing the legal structure. The renewed review, however, does dangle some carrots as well, but come with riders attached. (see *What the RBI Has Proposed...*)

Credit Crisis Aftermath

The immediate trigger for RBI's fresh proposals seems to be the global financial crisis of 2008/09. In its annual report 2009/10 released in July 2010, RBI had observed: "Lessons from the global crisis have supported the subsidiary route or domestic incorporation of foreign banks as it would provide better regulatory control over foreign banks and would also facilitate a simpler resolution in the event of bankruptcy, in relation to a branch structure." The move would allow the central bank to impose minimum capital requirements for the entry-level wholly-owned subsidiaries of foreign banks in line with new private sector banks. For instance, the unit will be required to maintain a minimum capital adequacy ratio of 10 per cent of the risk weighted assets.

Today, foreign banks in India run the bulk of their operations in tier-I and tier-II cities with a focus on high-end customers, both in the retail as well as in the corporate segment. If they accept RBI's new road map, it would be a whole new ball game for them. Says Douglas Flint, Chairman of HSBC Holdings Plc.: "It's a challenge for foreign banks in India. Agricultural lending is not something we have done."

There are no agricultural lending targets for foreign banks operating through branches. The new draft guidelines place a 10 per cent agricultural lending target for foreign banks. Meeting the target, most bankers concede, would be a mountain to climb. Most Indian banks

What the RBI Has Proposed...

Local incorporation of foreign banks as subsidiaries. They will then be treated at par with Indian banks for branch expansion

Local listing as well as permission to raise rupee resources as part of tier-II capital

Minimum capital requirement will be in line with the policy for new private sector banking licences

Minimum capital adequacy ratio of 10%

Independent board members on the Indian board

Priority sector lending target at 40%

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... And its Likely Impact

More headroom for foreign banks to expand in India, though there is a limit on foreign banks assets at 15% of the total banking assets

Deeper penetration into tier-III to tier-VI towns

Greater flow of credit to agriculture and other priority sectors

Local incorporation for foreign banks may pave the way for M&As in the sector

More competition in the domestic market

The Faultlines

Only state-owned banks have rural expertise

Most banks fail to meet their agricultural lending targets

Defaulters aplenty in the agricultural sector

No credit bureau to keep a credit history of borrowers or defaulters in rural markets

Indian listing doesn't enthuse foreign banks

No clarity on whether parent's credit rating is allowed for raising capital

Tax issues, especially incidence of Capital Gains Tax and stamp duty on transfer of assets

have struggled to meet their agricultural lending targets of 18 per cent. According to the latest RBI figures, Indian private banks such as HDFC Bank, ING Vysya Bank, Karnataka Bank and Corporation Bank have disbursed agricultural loans in the range of 10 to 12 per cent of their net advances in 2009/10. State-owned banks do better at 16 to 18 per cent — not surprising given their vast network of branches in India's interiors.

Most global banks have no domain expertise of direct lending to agriculture. They have not done it in other emerging Asian economies. Piyush Gupta, CEO of Singapore-based DBS Bank, says: "Agricultural lending is something we only do bits of. The challenge is to transfer global commodity financing knowledge into the farm sector in India. It might not be easy." Adds Ulrich Korner, Group Chief Operating Officer at Switzerland-based UBS, a relatively new bank in India: "It is possible that we service certain clients with specific needs in the agricultural sector or related sectors." But at present, outside Switzerland, UBS focuses on investment banking and wealth management and does not offer commercial banking services on a global scale.

Going Rural? Not Yet

In the new road map, RBI has suggested the branch policy for foreign subsidiaries will be similar to that of domestic banks, meaning expansion into towns in tier-III (population between 20,000 and 49,999) to tier-VI (population of less than 5,000) categories. In future, the foreign bank's expansion into top tier cities will be linked to branches in tier-IV to tier-VI towns. It will be yet another big challenge for foreign bankers as their branch network is highly concentrated in the top metros and cities.

"Stepping out into rural areas will take time," says DBS Bank's Gupta. That is not going to happen soon, say foreign bankers. "We have a long way to go in terms of branches," says Richard Waugh, President and CEO of Scotiabank, whose Indian unit has only half a

RICHARD WAUGH, President and CEO, Scotiabank

"We have a long way to go in terms of branches"

dozen branches in big cities.

In December 2009, the apex bank allowed commercial banks to open branches in tier-III and tier-VI cities without its prior permission. For foreign banks, the permission to set up branches in tier-I and tier-II is on a case by case basis. Many foreign banks say they require greater clarity on the ratio of tier-I and tier-II to tier-III to tier-VI branches. "Such clarity will enable banks to take a faster decision on adoption of subsidiary model," a banker said.

Banks Wary

There are other proposals that are making the foreign banks wary, too. RBI wants listing of the local subsidiary at a later date, which many foreigners are not very enthused about. "The liquidity in our stock market is largely in Hong Kong and London," says HSBC's Flint, who feels the Indian capital market doesn't offer high liquidity and depth. There is already a listing route open for global corporations, including banks, through Indian depository receipts, or IDRs. So far, though, only one bank has exercised that option — Standard Chartered Plc, which was listed in India through the IDR route in May 2010. Foreign bankers are demanding that the dilution of parent shareholding in Indian subsidiary should be voluntary and not compulsory. They also want to be exempted from paying capital gains tax while converting into subsidiaries. If a foreign bank chooses to incorporate locally, it will have to buy the business of the branches, requiring the parent to pay capital gains tax for the transaction. "We must be given tax breaks," says a CEO.

The central bank has tried to overcome the resistance from the foreign banks to become subsidiaries with some incentives. For the first time, it plans to permit them to raise preference capital and subordinate debt. The current regulations allow foreign banks to raise resources only from their parent body or head office through Innovative Perpetual Debt Instruments. "Banks will use that route," says Sanjiv Bhasin, CEO India, DBS Bank.

Many foreign bankers also want freedom to achieve scale in India. Here, too, this time, the central bank has given them enough headroom for growth. The fresh proposals limit capital and reserves of foreign players at 25 per cent of the banking system capital. Today, it is around 15 per cent.

RBI also proposes that foreign banks should be allowed to acquire any domestic private sector bank if they set up a subsidiary, which gets a chorus of approval from the players. "In 2005, too, RBI had promised to permit M&As (mergers and acquisitions) but did not deliver," says a foreign banker.

Overall, despite RBI's best efforts, foreign banks remain wary of the proposals. Expect some hectic parleys to evolve a consensus in the coming months. ◆

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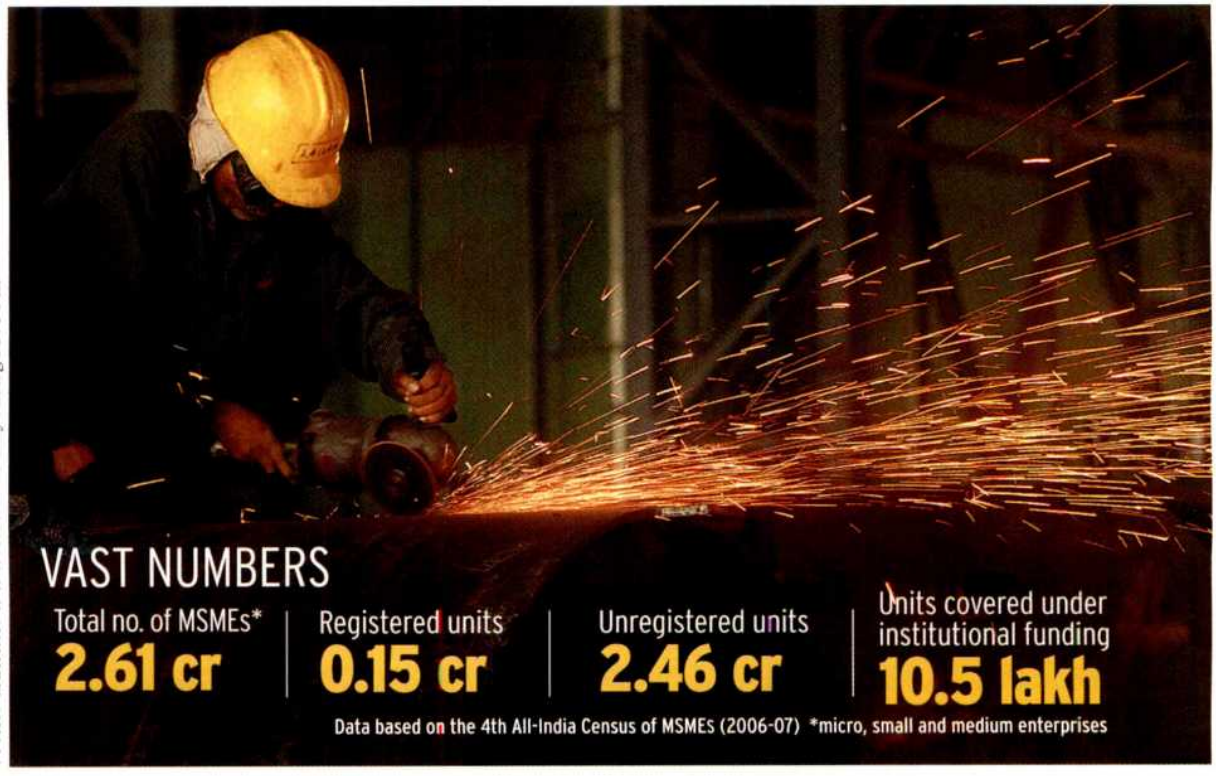
Collateral Damage

Lack of timely credit is killing growth opportunities for small and medium enterprises across the country. BY TASLIMA KHAN



VIVAN MEHRA/www.indiatodayimages.com

The proprietor of a Bangalore-based small-scale telecom equipments company, Raj Lakshmi was greatly relieved when the economic downturn ended. The year 2008 was the first one in the 20 years she had been running FON-ESS India, in which her account books showed a loss. And indeed, by end-2009, she had been inundated with orders, and all she needed was a modest ₹10 lakh in bank credit to execute them. But in the eyes of the local bank she approached, one loss-making year had tainted her record. Her request was turned down. "You have been unprofitable for a year. You will take seven years to return to profitability and become creditworthy," she was told.

Credit Squeeze

Lakshmi managed the credit from other sources. But millions of others who constitute the vast small and medium enterprises universe — lately expanded and called the micro, small and medium enterprises, or MSMEs — are not so lucky. In India, MSMEs are defined as industrial units in which the investment in plant and machinery, barring a few specified sectors, does not exceed ₹10 crore. At last count in 2006/07, there were 2.61 crore MSME units in the country. Absence of timely and sufficient credit is the biggest hurdle they face.

It is not as if there are no institutions to address their credit needs. Banks have been directed by the Reserve Bank of India to increase their lending to MSMEs by 20 per cent every year, and they have been doing so. In 2010, credit disbursed to the MSME sector grew by 42 per cent to a whopping ₹3.62 lakh crore.

However, those running these enterprises claim that banks are unresponsive and consider them less creditworthy than large enterprises, frequently seeking so much collateral that they are unable to take advantage of the credit schemes. Curiously,

banks also charge them higher interest rates than they do big companies.

Delhi-based Swati Prasad's experience is typical. She set up Creemos International a year ago, exporting leather accessories to Europe. "My current orders stand at ₹32 lakh. I have projected orders of ₹80 lakh by March-end," she says. But her attempts to get a bank loan have proved futile. "I am a merchant exporter. I don't make the accessories I export. The bank did not seem to understand this. It wanted to see my balance sheets for at least three years to consider my loan application. It even wanted collateral," she says.

In 2000, the Small Industries Development Bank of India, or SIDBI, the apex lender to this sector, launched the Credit Guarantee Fund Trust for Micro and Small Enterprises, or CGTMSE, which would stand guarantee for loans up to ₹1 crore. But only around 400,000 MSMEs have taken advantage of it so far.

Entrepreneur Neeraj Singhal, who runs one such unit, Karshni Aluminium Company, in Ghaziabad, puts it down to low awareness. "There are more than 10,000 such enterprises in Ghaziabad, but not more than 10 per cent of their owners know about the scheme," he says. He adds that three people he personally knows, who applied for loans under this scheme, were all turned down on various pretexts.

"The scheme has become active only in the last six to nine months,"

UMESH GOSWAMI

M.K. NAG, Chief General Manager (SMEs), SBI

"There isn't any scope for lowering interest rates further on SME loans"

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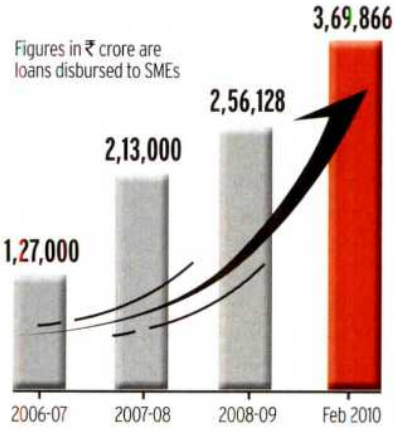
admits M.K. Nag, Chief General Manager (SMES), State Bank of India, or SBI.

SIDBI, too, has realised it needs to do more. "Bank officials have to be trained on how to lend on a cash flow basis instead of the conventional collateral basis," says R.K. Das, General Manager, SIDBI. "We have already started a training programme for bankers."

Even more galling for this sector is the high interest charged on loans when they are fortunate enough to get them. Rates vary from 11 to 15 per cent, while large enterprises are usually charged around nine per cent. "I'm borrowing at a much higher rate than the big companies and grappling with high input costs," says Uma Reddy, owner of HiTech Magnetics, a Bangalore-based manufacturer of transformers and coils. "Yet I need to price my products cheaper than the big guys, who have brand power, if I expect to sell." According to CRISIL, every one per cent increase in the interest rate reduces SME profits by an average of 14 per cent.

RISING OFFTAKE



But banks have no intention of reducing the rates. "There isn't any scope for lowering interest rates further," says Nag of SBI. "We have to consider each loan application as a business proposal and see the impact on our bottom line. We are not giving out subsidies."

SWATI PRASAD, Director, Creemos International

"I'm a merchant exporter... yet banks ask me to show balance sheets... and even collateral"

SHEKHAR GHOSH/www.indiatodayimages.com

Some feel the high interest rates could be managed if credit came in regularly and on time. "If banks ensure efficient and timely delivery of credit, interest rates would only be of secondary importance," says Anil Sinha, General Manager, Advisory Services at International Finance Corporation. "There should be better information flow between the bank and the SME unit."

What US Does

In the US, for instance, credit bureaus play a key role in facilitating this, collecting all information on companies applying for loans and sending it online to the banks considering the applications. Using this data — augmented from other sources — the bank accords a "credit score" to the company, and then decides whether to lend or not. "Implementing such a model in India should not be very difficult," says IFC's Sinha.

Mathew Titus, Executive Director of Sa-Dhan, a network of microfinance institutions, had another suggestion. "MSME development institutes should come up with a viable business model for them, which they can present to banks," he said.

Some small steps to redress this sector's credit woes are already underway. The Indian Bankers Association is working on an electronic registry of movable assets of companies against which loans could be given by banks. SIDBI is working on an Italian group guarantee model for securing small loans. In this, a group of SME owners and a bank come together to form a new company owned collectively by them, which then stands guarantee for loans taken by each entrepreneur.

India's growth story depends heavily on the health of its MSME sector, which accounts for nearly half of its manufacturing output, 40 per cent of its exports, and is a source of much innovation. It must get easy access to credit if it has to move. ◆

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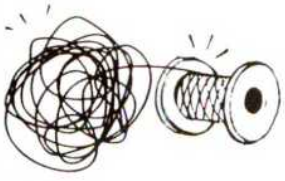
Clockwise from bottom left: ITI-trained employees work at the Maruti Suzuki plant in Gurgaon

Students at a Global Talent Track Centre in Bulandshahr, UP

DMRC staff learns safety from IndiaSkill's trainers

Students attend a workshop at the IIJT centre in Chandigarh



MAKING 500 MILLION EMPLOYABLE

Dozens of businesses and a concerned government get down to training India. SAUMYA BHATTACHARYA and SHAMNI PANDE join the dots on India's skilling revolution.

India faces a curious dilemma. In the next two decades, it will add over 200 million people to its working age — between 18 to 60 years — population. Much more than any other country in the world. Even China, seen as the mother lode of the global economy this century, will see its workforce shrink by about 100 million by 2030.

For India, more working people means more income. More income means a more prosperous nation. For a country that will become a middle income nation — per capita annual wages of $1,200, translating into ₹4,500 a month — by the end of 2010/11 after more than a century of penury, its young population presents a never-before opportunity for transition.

That is, if it can get its people readied for work. If it can train its young to man global standard factories. If it can get its young to be smart accountants. If it can turn its young into efficient yet friendly front office staff at super markets. If it can have its young tell the difference between a dovetail joint and a lap joint in a well-crafted wooden table. If it can produce enough nurses and doctors to charm and heal the world's increasing old. If it can...

If you are among those sceptical of India's capacity to do so, *Business Today* has news for you. There are the beginnings of a trend of India starting to train its people on a scale large enough to alter the nation's future. Dozens of training companies with ambitions of training millions in engineering, construction, manufacturing, retailing, insurance, banking services including microfinance, accountancy, hospitality, health care and other vocations are sprouting up around India.

Nitesh Kumar Chaurasia, an arts graduate from Gorakhpur, a town in eastern Uttar Pradesh, is one among the thousands of young Indians flocking to these institutes. Enrolled at a four-month module on business accounting at IIJT, a skill training provider and part of India's

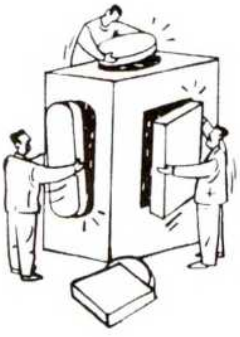
MEETING THE 500 Million CHALLENGE

TRAINING GOALS:

NATIONAL SKILL DEVELOPMENT CORPORATION
150 mn

LABOUR MINISTRY
100 mn

MINISTRIES UNDER NATIONAL SKILL DEVELOPMENT BOARD
250 mn



"Scale is critical and players such as Centum, IIJT and Everonn, among others, have the ability to deliver scale"

biggest staffing company TeamLease Services, the 21-year-old's logic for paying ₹28,000 for the programme is simple: "I would rather work in a comfortable office environment." Among the several jobs Chaurasia has pursued in the past is a position in the Uttar Pradesh police force.

The draw of a higher probability of landing a job is strong and many pay the ₹30,000 to ₹50,000 course fees even if it is more than half a year's income in a lower middle class family. IIJT, across its 123 centres in India, has 12,000 trainees on its rolls. In an economy where even multi-billion dollar companies are growing revenues at 15 to 30 per cent annually, demand for talent is such that many among the neo-trained are getting jobs.

The story resonates across India, as BT writers and photographers who travelled to Bulandshahr, Chandigarh, Pune, Mysore, and Manesar, besides big cities such as New Delhi and Hyderabad, found. In the capital's Shastri Park, Delhi Metro Rail Corporation is training its managers and line workers. It has roped in multiple private players to train its workforce. ›ıong various modules, IndiaSkills, a ıture between Manipal Education ıd the UK's City & Guilds, trains the :hnical staff (mostly diploma hold- from Industrial Training Institutes, ıs) in safety and maintenance. The :t is to train 2,000 in batches of › a week; already 800 have completed their training. This is just the beginning, says Hari Menon, CEO,

VIVAN MEHRA

DILIP CHENOY,
CEO, National Skill Development Corporation

IndiaSkills. "Over the next five years, we plan to skill and facilitate employment of one million learners through 500 skill centres covering 50 per cent of districts of India," he says.

Aiding that effort is the National Skill Development Corporation, or NSDC, a partnership between the Union government and industry associations. The National Skill Development Policy puts the need for skilled hands in India at 530 million. NSDC has been entrusted the task of producing a 150-million-strong skilled workforce by 2022, or some 13 million a year. (The remaining 350 million, it is expected, will be covered by the current crop of colleges, ITIs and other institutions.) That's a big jump from the three million skilled workers India produces annually today. NSDC has committed ₹667 crore to support private and government-aided skill initiatives and has given its nod to 26 projects to date (See *NSDC's Project Partners*). Several more are in the pipeline.

With a huge addressable market for skill development and active government support, many are joining the bandwagon, including corporates such as Centum Workskills and IL&FS, first time entrepreneurs such as Edubridge and iStar, NGOs like Pratham, and private players NIIT, Global Talent Track, or GTT, and Basix's B-ABLE. India is also poised to get its first vocational education training university in Gujarat to be set up by the state government and TeamLease.

The range of training runs from shop-floor to software. At an office on Pune's Dholey Patil Road, around 40 students are learning dotNET, a Microsoft Windows technology, at a lab set up by GTT. This is the latest centre of GTT, set up in 2008, adding to a chain with a presence in 15 states, including far-flung Assam and Jammu and Kashmir.

GTT works on a hybrid model: it sets up its own training centres, works with colleges and universities, and services employers who tell it their needs. GTT then selects, trains and assesses talent for them. "Companies are looking for domain specialists. At the Pune lab, we will create experience learning for creating domain specialists," says Uma Ganesh, GTT's CEO. And, if the pedigree of her backers — Intel Capital and Helion Ventures — is any indication, it may seem that there is money, plenty of it, to be made.

But international experts point to the

danger of a government-led nationwide training programme. Karan Khemka, partner at Parthenon Group, a London advisory firm specialising in education, believes hiring companies are running their own training. Pointing to Wal-Mart, the biggest retailer in the United States, or Infosys Technologies closer home — both have made training a fine art — he asks: "If vocational training had such tremendous potential, why is it that there are no large vocational training companies operating successful businesses?"

Yet, there is no denying India's crying need for skills, the genesis of which lies in its faulty education system. Government programmes such as the Sarva Shiksha Abhiyan and the growing prosperity of citizens means higher enrolment — near 100 per cent in many parts of the country today — in primary schools, but competency tests of students show how poor the quality of education is. A survey of rural schools in 2010 by Pratham, a non-governmental organisation engaged in education, showed that more than half the students in Class V could not read beyond Class II textbooks. In urban India, some eight million drop off from the education system between Class X and graduation, according to one estimate. (About two million graduate in India every year.) Such dropouts make for customers of what is being touted as the next big business opportunity: NSDC estimates India's training market at $22 billion.

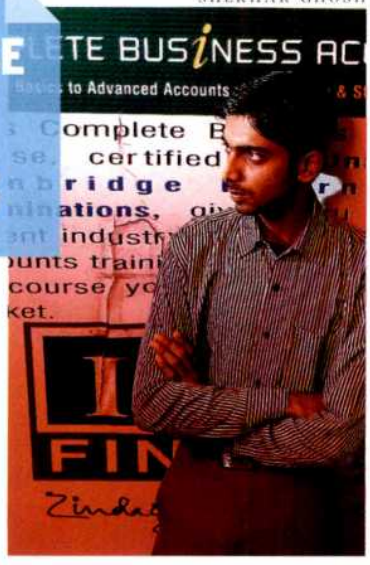
It was a 2005 study by software lobby Nasscom and consultancy firm McKinsey & Co. that jolted India out of its reverie on employability. The study focused the spotlight on what employers knew — just one in four engineers was employable, or could be trained for a job. Profiles in other industries were no better. The employability situation has worsened since then. Nasscom says employability in technology in 2011 is still 26 per cent, while in business process outsourcing services, it is between 10 and 15 per cent. "It's not that needs have changed or the industry requirement has gone up; it's just that the input quality has dropped," says Sandhya

NSDC's Project Partners

	TRAINING TARGET	LOCATION	BUSINESS MODEL	PROJECT COST
BASIX Academy for Building Lifelong Employability Ltd (B-ABLE)	1 million in 10 years	Pan India	Students fee model	₹33.18 cr
Centum Learning Ltd. and Workskills	11.57 million in 10 years	383 centres in 11 states	Enrollment revenue, placement	₹16.27 cr
Edubridge Learning Pvt. Ltd	0.70 million in 10 years	Pan India	Placement fee model	₹5.40 cr
GRAS Hospitality Services Ltd	1.3 million in 10 years	Pan India	Students fee model	₹ 80 cr
Gram Tarang Employability Training Services Private Ltd	21,000 in 5 years	Orissa, Andhra Pradesh	Students fee driven model	₹14.50 cr
Indian Institute for Gems and Jewellery	18,000 in 10 years	Rajasthan	Students fee driven model	₹11.14 cr
Red Hat Investments Private Limited and Indigram Skill and Knowledge Initiatives Private Ltd (I-SKILL)	0.74 million in 10 years	Pan India	Students fee driven model	₹22 cr
IL&FS Cluster Development Initiative Ltd	1.95 million in 10 years	100 skill schools across India	Students fee driven model	₹216.82 cr
iSTAR Skill Development Private Ltd	0.13 million in 10 years	10 centres in 10 states	Students fee driven model	₹1.32 cr
Pratham Education Foundation and Pratham Institute	1.69 million in 10 years	100 institutes, 1,500 training	Students fee driven model	₹23 cr
International Association for Human Values	128 students	Pune	One-of-its-kind initiative	₹51 lakh
TMI Input & Service and TMI e2e Academy	0.53 million in 10 years	Tier-II, III cities in India	Students fee driven model	₹29.21 cr
Empower Pragati Vocational & Staffing	2.1 million in 10 years	Pan India	Placement-driven model	₹25.97 cr
Construction & Real Estate Developers Association of India	97,920 over 12 years	12 centres	Revenue streams from student fees	₹18.53 cr
Managerial Excellence Resource Centre	96,665 in 10 years	10 centres in Maharashtra, Gujarat	Students fee driven model	₹3 cr
Indian Institute of Skill Development	0.24 million in 10 years	50 centres	Course fee, placement	₹16.35 cr
Globsyn Technologies and Globsyn Skill Development	0.35 million in 10 years	5 centres in West Bengal	Students fee driven model	₹12.51 cr
Laqsh Job Skills Academy Private Ltd	1.05 million in 10 years	420 centres in eight states	Students fee driven model	₹10.10 cr
Laurus Edutech Private	1.11 million in 10 years	546 centres	Students fee driven model	₹33.18 cr
Fides Global Academy Private Ltd and JobAbility Solutions Private Ltd	1.74 million in 10 years	11 centres in Tier I, II cities	Students fee driven model	₹24.54 cr
Everonn Skill Development Ltd	11.70 million in 10 years	217 centres	Students fee driven model	₹153.76 cr
IIJT Computer Education Private Ltd	1.80 million in 10 years	1349 centres in Tier I to Tier V cities	Company-owned, franchise	₹83.61 cr
Talent Sprint Education Services Private Ltd	0.52 million in 10 years	Pan India	Students fee driven model	₹15 cr

ON COURSE Five Years AFTER

SHEKHAR GHOSH



ANUP CHANDEL

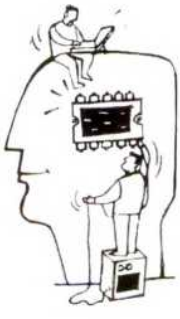
AGE: 23

BACKGROUND:
Completed 10+2 in 2006; worked with CA for a year at ₹2,000 per month

WHEN HE TRAINED, WITH WHOM:
In 2008, he joined one-year Complete Business Accountant course with IIJT Chandigarh

HOW MUCH HE SPENT ON THE COURSE:
₹30,000

EARNING NOW:
₹9,000 per month



Soon after passing out of school, Anup Chandel joined a chartered accountant's office in Ropar, Punjab as assistant in 2006. In his job, he was doing petty work which included helping the CA in preparing profit and loss accounts and balance sheets, doing tally transactions and other verification work. At ₹2,000 a month, he worked there for almost a year before a friend told him about the finance course of IIJT Chandigarh. "I wanted to work in the accounts department of a reputed company which was not possible without a diploma or certificate course in finance, so I enrolled for IIJT's Complete Business Accountant course in 2008," says Chandel. He paid ₹30,000 for the course, but when it got over, he could not find a job. "IIJT arranged three to four interviews for me, but due to lack of qualification, I couldn't get a job," he says adding that he had to go back to the same CA in Ropar. This time, his salary was ₹6,000 a month. "While working in Ropar, I kept looking for jobs," he says. Almost after a year, he got a job offer from Chandigarh's Integral Development Engineers. Today 23-year-old Chandel works as accounts officer in the company and gets ₹9,000 per month. He is currently pursuing his graduation in commerce from Himachal Pradesh University through correspondence.

MONEY SHARMA

Chintala, Senior Director for education initiatives at Nasscom, referring to the abysmal levels of competence among students coming out of colleges.

That is bad news for the software and BPO sectors, which already spend ₹5,400 crore on training every year and are projecting a need for 10 million workers by 2020, nearly four times the current 2.54 million. "About 95 per cent of Indians coming out of the education system are not employable," says GTT's Ganesh. But "a majority of them can be made job-ready".

One way to get there is to copy what India's biggest carmaker Maruti Udyog has been doing: "adopting" ITIs for talent. It has employed over 500 ITI graduates with the Maruti Service Network so far, says S.Y. Siddiqui, Managing Executive Officer, adding his company will take the number of partnerships to 35 by the end of March. Other automakers, too, follow similar programmes (See *Employability, Delivered*).

Still, training half a billion people in 11 years can be a very tall order. Dilip Chenoy, NSDC's CEO and Managing Director, says the biggest challenge before the training industry is scale. So while NSDC does promote entrepreneurs who know their local regions well and NGOs such as Pratham, it is aware of the need for roping in the big hitters. "This is imperative as players such as Centum, IIJT and Everonn, among others, have the ability to deliver scale," says Chenoy. Centum Learning, part of the Bharti Group, has formed a joint venture with NSDC called Centum WorkSkills India, to train 12 million people across 11 states in 383 districts by 2022. A venture with a unit of tech-enabled trainer Everonn will be even bigger, says the NSDC head.

"We work with companie to understand their skill requirements. We then work backwards and decide what courses we would like to launch"

SANJEEV DUGGAL,
Centum CEO and Executive Director

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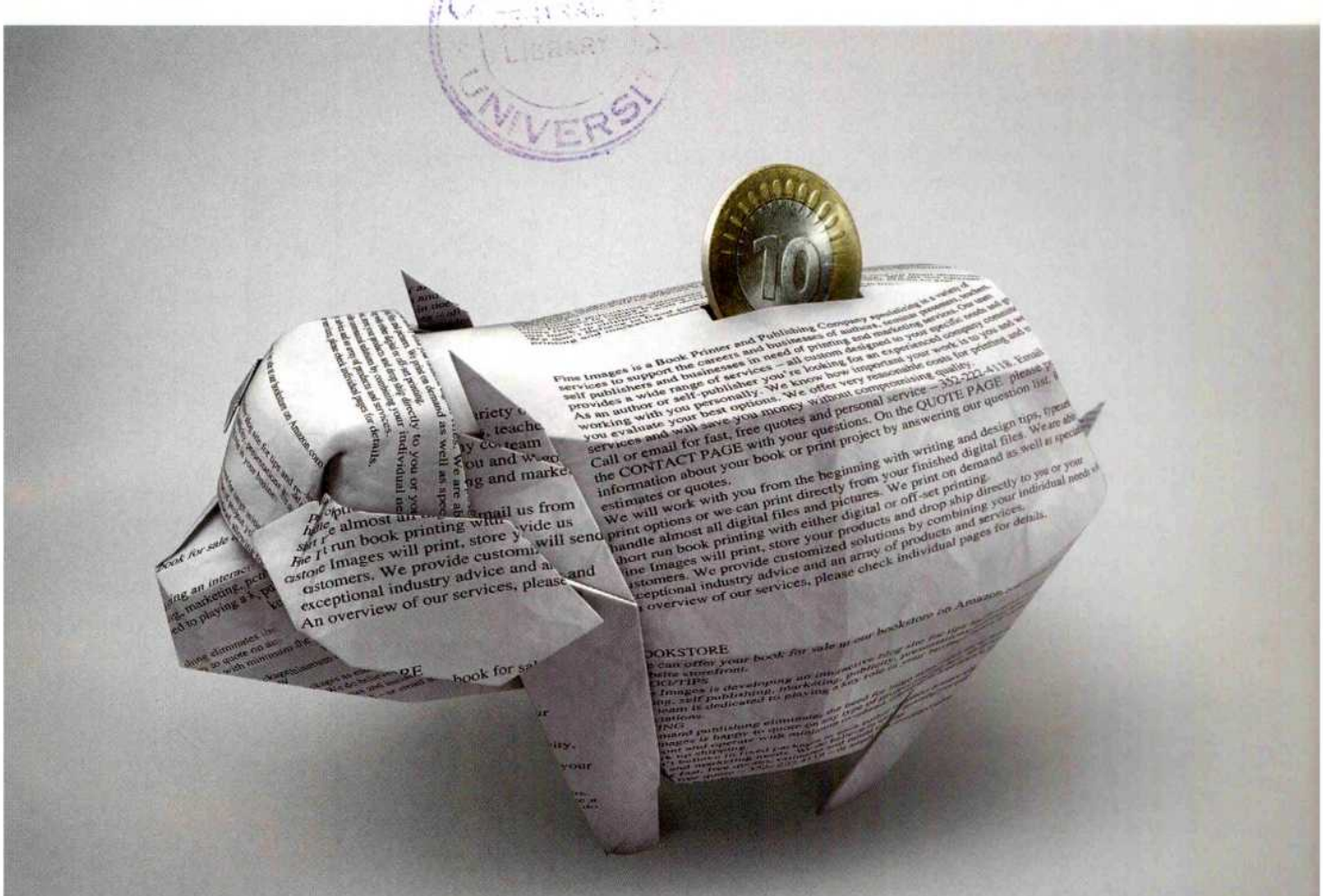

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Seasoned players like Centum bring to the table both backward and forward linkages. "We work with companies to understand their skill set requirements over a period of time. We then work backwards and decide what courses we would like to launch and where we should be opening our training centres," says Sanjeev Duggal, CEO and Executive Director.

There are start-ups in the wings, too. Intex Technologies, an IT hardware, mobile phone and electronics company, based in Delhi, is working on a solution based on third generation mobile phone technology where a phone handset can be used by instructors and students. Bangalore's iStar Skill Development, an NSDC partner, was founded by two batchmates from the Indian Institute of Management, Ahmedabad, to focus on training for the financial services industry.

The quality and the availability of trainers is a challenge too. "Creation of trainers is one of the major issues before the country," says Labour Secretary Prabhat Chaturvedi. To address the problem, the Labour Ministry is assessing trainer requirements. The ministry has given a mandate to the Noida-based VV Giri National Labour Institute to conduct a study on trainer requirements. "We will work on the future course of action once the report is submitted to us March-end," says Chaturvedi. The news is not likely to be good, given how underpaid teachers and trainers are in India.

The next challenge is the lack of standardisation and certification in an industry that is more motley than organised today. Even as the likes of IndiaCan, a partnership between Educomp and Pearson, or IndiaSkills have been quick to embrace international certifications, NSDC's Chenoy says he prefers sector-specific skill councils that will "set up

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UMA GANESH,
Global Talent Track CEO

DEEPAK G. PAWAR

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SATISH LAKSHMANAIAH

AGE: 21

BACKGROUND:
Parents were farm labourers

WHEN HE TRAINED, WITH WHOM:
Toyota Technical Training Institute, Karnataka, completed in 2010

HOW MUCH HE SPENT ON THE COURSE:
IT WAS FOR FREE

EARNING NOW:
₹7,000 per month

After completing tenth standard with a good 82 per cent marks from his village school at Anedoddi, 50 km from Bangalore, in 2007, Satish Lakshmanaiah was unsure about the future. His parents, both farm labourers, were too poor to send him to college. On a friend's advice, he applied to the Toyota Technical Training Institute at Bidadi, off the Bangalore-Mysore highway. He got selected. Lakshmanaiah, now 21, earns about ₹7,000 a month at Toyota Kirloskar Motor. His salary will go up by a few more thousand rupees after he completes his one-year probation.

The three-year residential course at the Bidadi institute, for which he was not charged, taught him skills in a range of automobile activities and made him an assembly specialist. He and 63 classmates can speak fluent English and basic Japanese, and command the respect of other colleagues for their problem-solving abilities. Says Lakshmanaiah: "My parents don't have to work in farms for a livelihood now, though they are into sericulture."

Toyota started the institute after a 2005 survey showed one-tenth of Class X pass-outs don't study further for affordability reasons. The course emphasises more on attitude development, says T. Somanath, the institute's principal. "Toyota observes people's attitude rather than skills while hiring."

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RAVINDER SINGH PANWAR

AGE: 19

BACKGROUND:
Father is caretaker at a farm house

WHEN HE TRAINED, WITH WHOM:
B-ABLE in Dehradun, For three months July-September 2010

HOW MUCH HE SPENT ON THE COURSE:
₹ 9,900

EARNING NOW:
₹ 4,000 per month

When Ravinder Singh Panwar finished his schooling in Pipri village in Tehri Gadhwal in early 2010, all he wanted was to acquire a skill that will help him earn. Eldest of three siblings, Panwar heard about the B-ABLE learning centre at Vasant Vihar in Dehradun, Uttarakhand, from his maternal uncle and promptly came to the city to do a course of his choice in mobile repairing. "I chose to do this course because I can work on my own in case I do not get a job," he says. But that has not happened. Panwar works in a shop at a shopping complex on Rajpur Road and takes home ₹4,000 a month. Not that it is enough to sustain him – a fourth of his salary goes as rent for a room he shares with two others. "I work from 9 a.m. to 9 p.m., but I have not started sending money home," he says. He has also enrolled himself for a degree course at the local DAV PG College. "The degree is a formality, but has to be acquired," he says. His long-term plan is to open his own mobile repairing shop in Dehradun in a couple of years. He will need at least ₹1 lakh for this dream. "I will manage; probably I will take a loan," he says.

RAJIV KALA

UPWARDLY Mobile

SHEKHAR GHOSH

SHARAD TALWAR, IndiaCan CEO

"It is an 'international' certificate as it involves third-party, external verifiers who come from the UK"

a competence matrix". Education and training firm IndiaCan's CEO Sharad Talwar holds a different view. "It is an 'international' certificate as it involves third-party, external verifiers who come from the UK. These are experienced people who have tested across different markets," he says.

Sooner than later, it is clear that certification will become the norm. That pressure is felt even at rural, mid-size training ventures. Take Gram Tarang Employment Training Services, which operates in the Naxalism-affected areas of Orissa and Andhra Pradesh. It was forced to get certification from the National Council of Vocational Training and has also tied up with Meritract of Australia that does third-party testing, as also the Indian Institute of Welding. New Delhi-based B-ABLE, part of the microfinance organisation BASIX, has tied up with industry leaders for certification: Larsen & Toubro for construction and Tata Motors for the auto sector.

India's newfound push on skilling could help it follow the South Korean or even German models where an intense vocational focus in education and training helped the countries rapidly expand their economies. If the dozens of training institutes mushrooming in India can deliver it a skills edge, the country could reap benefits of its demographic dividend. Else, India better get ready to deal with a demographic disaster. ◆

ADDITIONAL REPORTING BY K.R. BALASUBRAMANYAM, RAHUL SACHITANAND, MANU KAUSHIK AND KAKOLY CHATTERJEE

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Mismatches Vitiate Employability Challenge

Only a small section of our educated youth is readily employable. About 58 per cent are impaired by some sort of skill deprivation — last mile, interventional or structural. The gaps are most in the areas of spoken English and soft skills, functional skills and industry skills. Unfortunately, demand and supply as far as employable youth are concerned have become parallel universes. Curriculum and pedagogy at teaching institutions are increasingly being set by people who do not understand what companies want. Also, curricula get outdated. For example, we still teach a mechanic about carburettors even though no car in India has them any more.

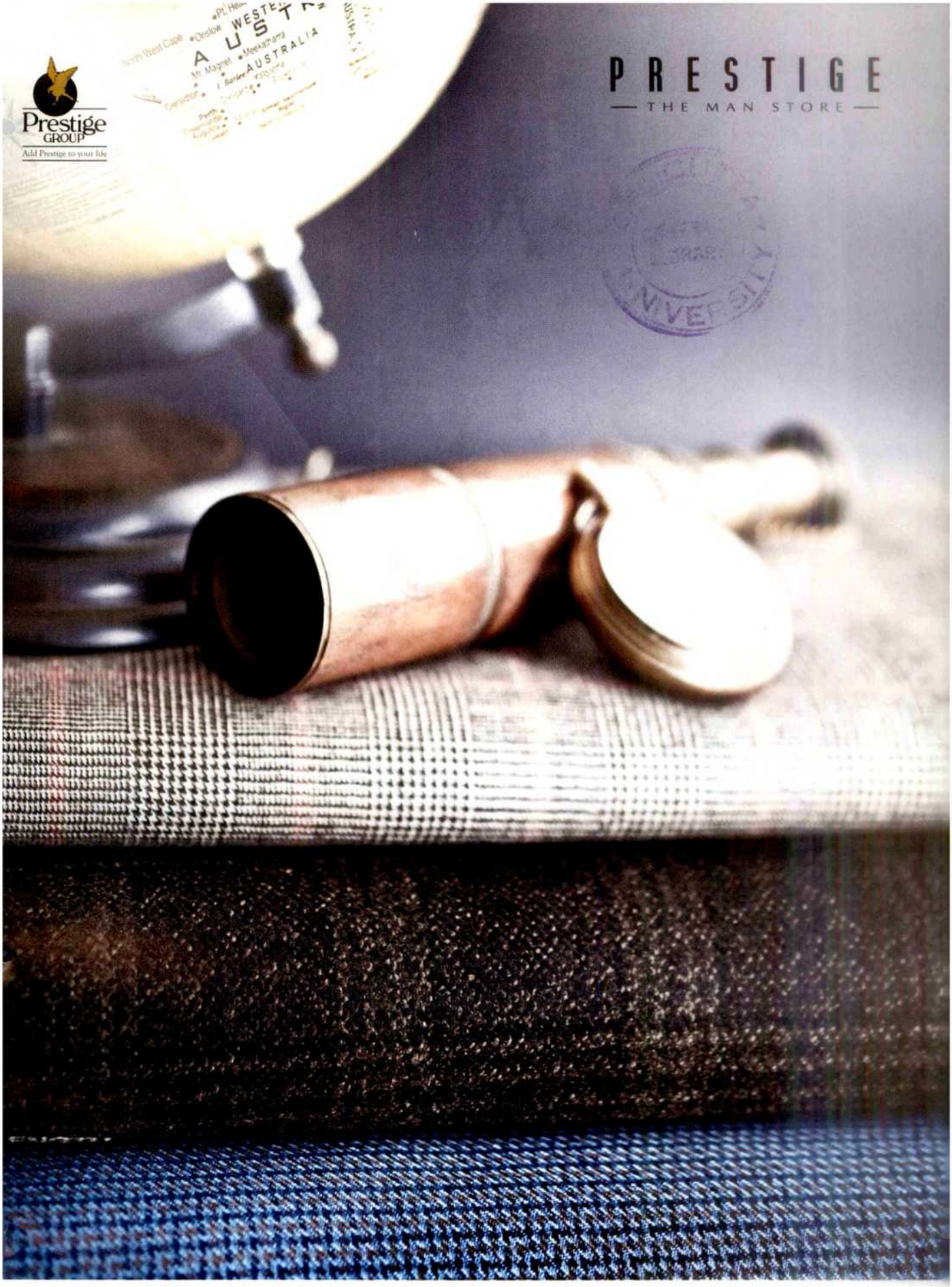
Scale of employability challenge: I would say we are in an education emergency. The obvious challenge is the so-called demographic dividend. But that only focuses on the flow — the one million young people who will join the labour force every month for the next 20 years. The more subtle challenge is the labour stock — there may be another 300 million people who are stuck in low-productive jobs. The employability challenge is complicated and compounded because of three mismatches. There is geographic mismatch (over the next 20 years jobs will be in a different state from where the labour force hails from), sector mismatch (people currently employed in sectors that will not see the high job and salary growth) and skill mismatch (people have skillsets different from what investors are looking for). The only sustainable way to reduce poverty is by tackling the 3Es — education, employability and employment.

Employability buckets: Obviously, the highest leverage is in education reform because you cannot teach someone in six months what they should have learnt over a period of 15 years. But the three solutions are much more closely linked than we think. Most people who need re-skilling do not have the money to pay for it. The government will have to innovate in skill financing. Increasing private privatisation in this task is also difficult unless we increase the share of organised employment. This needs labour reforms. Making college education more relevant or creating the concept of community colleges requires a radical revamp. So, fixing the problem needs a shift that physics made from classical physics (discrete systems) to quantum physics (everything is interrelated). So, the 3Es needs to be reformed, pursued and expanded simultaneously.

Solution to skill development problem: The entire ecosystem — assessment, counselling, curriculum, teacher training, apprenticeships and placements — should be job oriented. State policies need to figure out how to make public money available for private delivery — evolve some kind of skill voucher. There is also need to link financing to outcomes rather than inputs. Finally, regulations around school and higher education need to be made flexible for new models of delivery and creation of vertical mobility between certificates, diplomas, associate degrees and degrees. This vertical mobility is the key to multiple exits and entry ramps in the vocational system, as well as remove the impression that vocational training is dead end. Finally, we need to address the issue of labour reforms because 93 per cent employment in the unorganised sector sabotages sustainable and scalable skill development. ◆

The author is a member of the National Skill Development Council

You cannot teach someone in six months what he should have learnt over a period of 15 years



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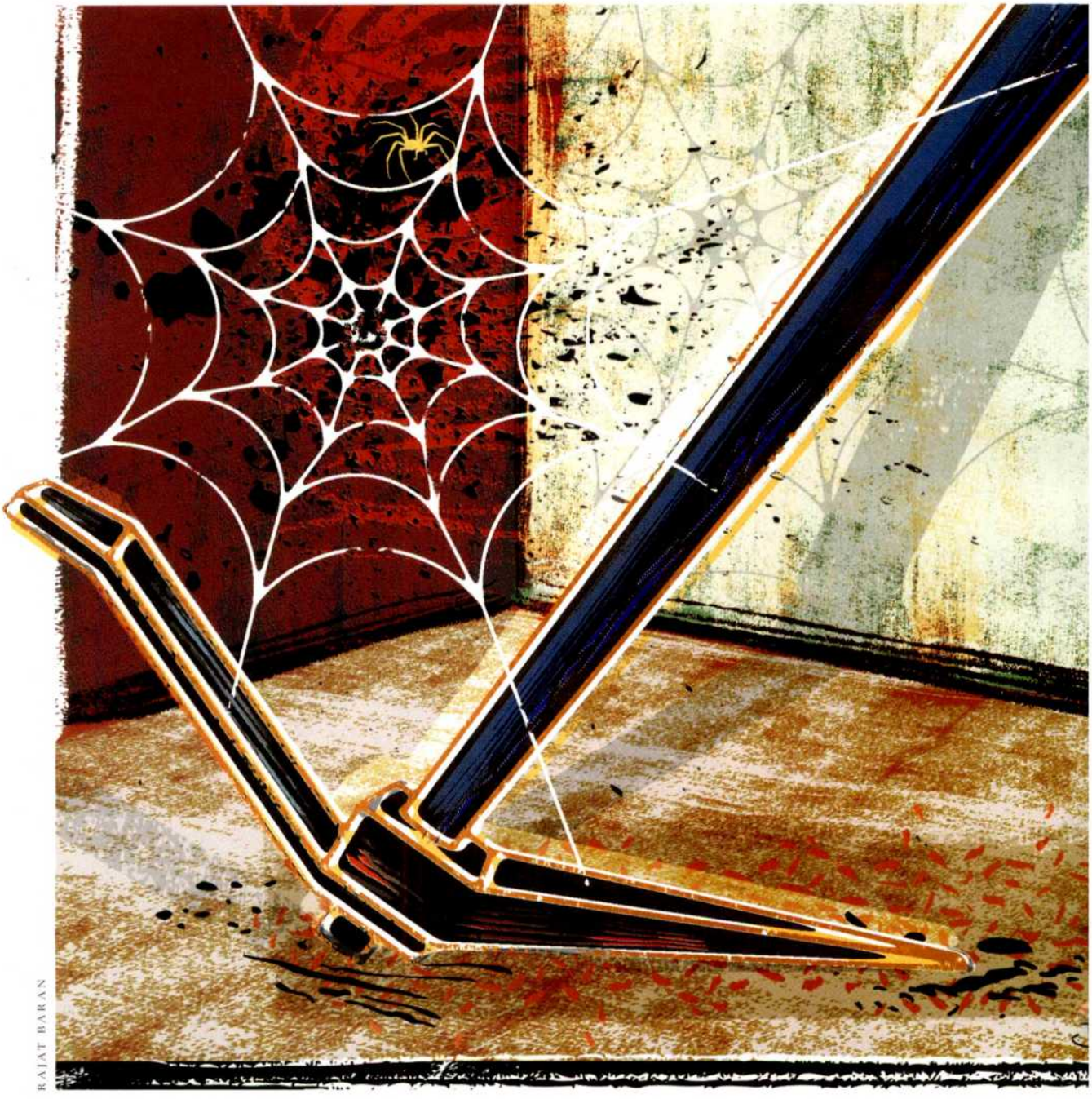


RAJAT BARAN

The Handouts...

- Rice at ₹1 per kg
- Other food items at subsidised rates
- Free dhotis and sarees for festivals
- Free television sets
- Free LPG stoves with gas connection
- Cooking oil at subsidised rates
- Free school education
- Subsidised health insurance scheme
- ₹75,000 subsidy to convert each thatched hut into *pucca* house
- 100 days of guaranteed work through MGNREGS

Free Lunches Turn Costly

Tamil Nadu is paying a heavy price for the DMK government's unrestrained populism. BY N. MADHAVAN

Eighty labourers, both men and women, are at work at Thiruvanduthurai village in Tiruvarur district of Tamil Nadu, about 325 km south of Chennai. They are digging a pond — about an acre wide and six feet deep — funded under the Mahatma Gandhi National Rural Employment Guarantee Scheme, or MGNREGS.

Outside the work perimeter, two middle aged men look on, worried. P. Murugan and K. Govindaraj are farmers from the same village who have cultivated black gram in their fields. The crop is ready for harvesting but they have been unable to get enough farm hands for the job. "We have been trying to wean away people from this pond digging to work for us, but they refuse," says Murugan. "Almost half our crop is lost as it is already over-ripe."

No doubt private employers across the country are facing a serious labour shortage following the implementation of the MGNREGS. But in Tamil Nadu, the problem has been exacerbated by the ruling DMK government's unrestrained populism over the last five years. Today, a ration card holder in the state gets rice at ₹1 per kg, several other food items like pulses and cooking oil at subsidised rates, a free gas stove along with an LPG connection, free school education for the children, free dhotis for men and sarees for women during festivals, a free TV set, subsidised health insurance and a ₹75,000 subsidy to convert a thatched hut into a *pucca* dwelling.

With assembly elections in the state scheduled in April and electioneering in full swing, the DMK is banking on these very populist measures to offset the damage to its image caused by the 2G spectrum scam — in which one of its leading lights, former union telecom minister A. Raja is the key player — and bring it back to power. However, the measures have also had adverse consequences, creating not only a major labour shortage but leaving the state with a huge revenue deficit, which may stunt its growth in the long run.

In the last five years, Chief Minister M. Karunanidhi's government has spent ₹14,626 crore on the food subsidies, ₹1,219 crore on the free dhotis and sarees, ₹3,922 crore on the free TV sets and ₹660 crore on the free LPG stoves. It has earmarked ₹12,000 crore for the housing scheme involving 1.2 million hutments. The insurance scheme has provided around 2.70 lakh people treatment costing ₹700 crore.

Labour Pains

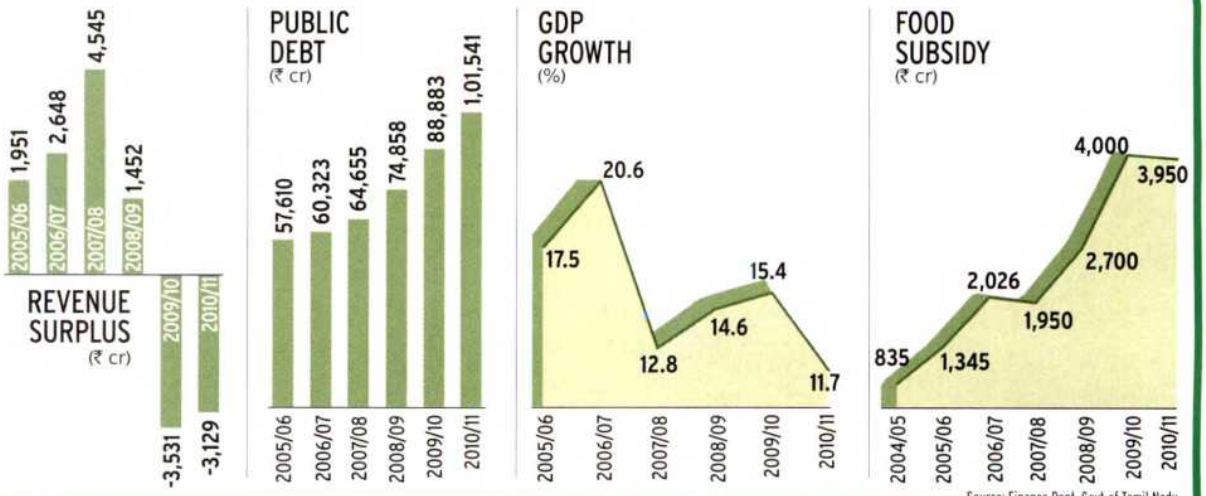
The freebies have made a deep impact on labour attitudes. "When you take care of almost all the basic needs of people, be it food, clothing, shelter, healthcare, children's education and even entertainment, there is

... And the Fallout

- **Massive shortage of labour for both agriculture and industry**
- **Sharp increase in the cost of labour**
- **Farm output set to fall in the absence of mechanisation**
- **Many local industries expanding outside the state**
- **State in poor financial condition, debt burden high**
- **Government forced to augument revenues by selling liquor**
- **Labour efficiency taken a hit**

Price of Profligacy

The government's spending spree has dealt a body blow to the state's economy



Source: Finance Dept, Govt of Tamil Nadu

GRAPHIC BY RAVI SHANKAR

little motivation for them to work hard," says a state bureaucrat, requesting anonymity. Together with the MGNREGS, the freebies have left the rural population too content to exert itself, he adds.

The contentment shows in the increasing liquor consumption of the state, claim some observers. In 2005/06, state revenue from liquor sales was ₹6,087 crore. In 2009/10, it rose to ₹11,606 crore, and is estimated to be around ₹14,033 crore in 2010/11.

Labour shortage at harvesting time is so acute that many paddy farmers in the Cauvery Delta, which accounts for 30 per cent of the state's output, are shifting to less labour intensive and more lucrative crops — 26,000 acres have been given over to sugarcane, 10,000 to oil palm and 10,000 to a variety of bamboo without thorns. Fish farms have sprung up across 10,000 acres. Sign of the times: 10,000 acres of farmland have been converted into real estate. Around 15,000 acres simply lie fallow. "At this rate, we could face a major paddy shortage in the country in coming years," laments S. Ranganathan, General Secretary of Tamil Nadu Cauvery Delta Farmers Welfare Association.

Though paddy fields await transplantation at Kovilvenni village in the Cauvery Delta, some prefer a game of dice

H. K. RAJASHEKHAR

Industry's Problems

The welfare measures are hurting industry, too. Migration from the villages to the cities has dropped significantly. "Labour shortage has pushed up wage costs. We are forced to pay more," says Venu Srinivasan, Chairman and Managing Director of TVS Motor Co. Rural contentment across the state was even more evident when the government, in collaboration with the Confederation of Indian Industry, or CII, sought to identify 100,000 unskilled people in rural areas, whom CII member companies were willing to train and subsequently absorb. The state government, for its part, offered to bear the cost of training to the tune of ₹50 crore. The salary promised was ₹7,000 a month. Yet the rural response was cold. Around 40,000 people were identified with difficulty, of whom 11,000 were given appointment letters. Only 800 joined, the rest unwilling to leave the

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comfort of their villages.

The labour shortage has arisen at a particularly inopportune time as there has been a strong inflow of manufacturing investments into the state in recent years. According to M. Velmurugan, Executive Vice Chairman of the Guidance Bureau in the state's industries department — the nodal agency for attracting investments — Tamil Nadu attracted investments worth ₹80,000 crore in the last five years. Projects worth another ₹30,000 crore are in various stages of discussion and approval. "Six of the top 10 auto majors are in Chennai with a capacity to produce 1.7 million vehicles annually. We are set to become the world's largest auto cluster," he says.

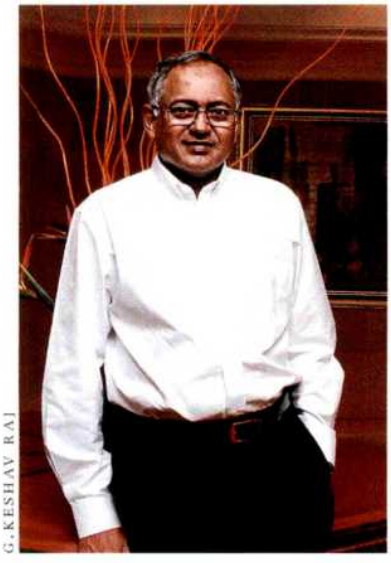
The demand for labour has grown so intense that the new investors, who pay more, are edging out traditional businesses. Old industries, such as textiles, are forced to expand outside Tamil Nadu. "We are not welcome any more. Tamil Nadu does not need the textile industry," says Manickam Ramaswamy, Chairman of Loyal Textiles, which has a capacity of 1.25 lakh spindles and 250 looms in the state. Labour shortage and extended power cuts have forced him to expand in neighbouring Andhra Pradesh where he recently put up a 25,000-spindle and a 200-loom unit. Rajapalayam Mills and Govindaraja Mills, too, have chosen to set up new units in Andhra.

Chief Minister M. Karunanidhi (centre, in glasses) at a function to distribute free TV sets

H. K. RAJASHEKHAR

VENU SRINIVASAN, Chairman and Managing Director, TVS Motor Co.

"There is a massive labour shortage. Industry has been forced to pay more to hire"



G. KESHAV RAJ

During the DMK's tenure, Tamil Nadu's gross domestic product, or GDP, growth has declined from about 21 per cent in 2006/07 to 11.76 per cent in 2010/11. The state's revenue deficit is estimated at ₹3,129 crore during 2010/11 against a revenue surplus of ₹4,545 crore in 2007/08. Its public debt is set to cross ₹1,00,000 crore in 2010/11. Yet state finance minister K. Anbazhagan claims there is nothing to worry about as the amount borrowed is within the state's capacity to repay.

To be sure, despite the profligacy, Tamil Nadu has not touched bottom yet. As per the latest Reserve Bank of India study on state budgets, Tamil Nadu's ratio of debt to gross state domestic product was 24.2 per cent in 2008/09, which was better than that of some other big states like Maharashtra, Gujarat, Kerala and Karnataka. Economists, however, point out that the state's per capita social expenditure over the past five years, at ₹3,200, is second only to that of Maharashtra and too high to be sustained indefinitely.

Already, one of the key themes of the Opposition in the current election campaign is that the DMK government has ruined the state's finances and is leading it into a debt trap. "Every child born in Tamil Nadu today carries a debt burden of ₹15,000 on his or her head," said AIADMK leader J. Jayalalithaa during one of her rare appearances in the state assembly recently.

Noted agricultural economist, Professor M.S. Swaminathan, sums up: "Welfare measures are needed in India considering the large scale inequality. But there is a need to take a view in totality. On one hand we offer freebies and on the other take money away from the people through the sale of liquor. That is very unfortunate and counter-productive in the long run." ◆

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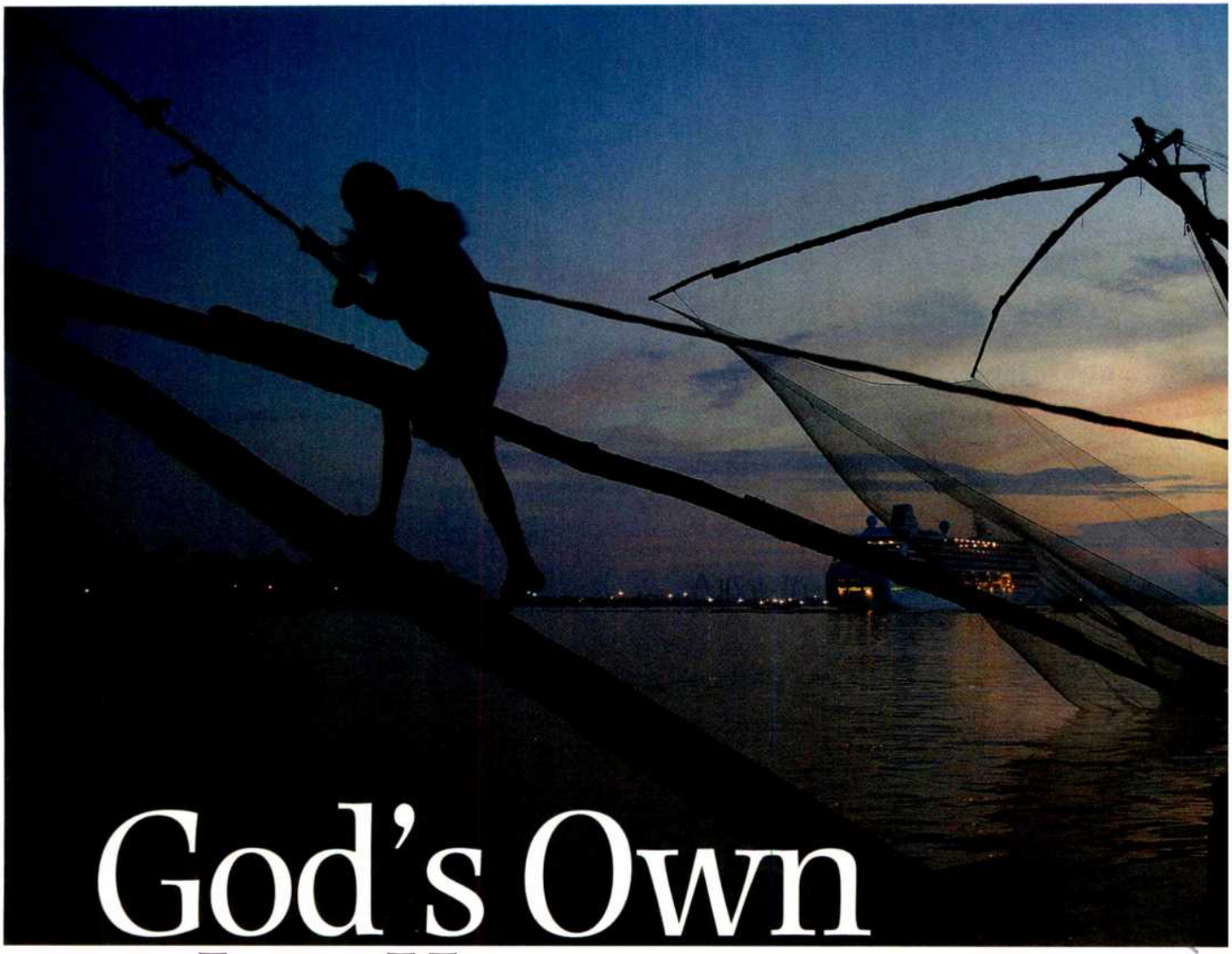


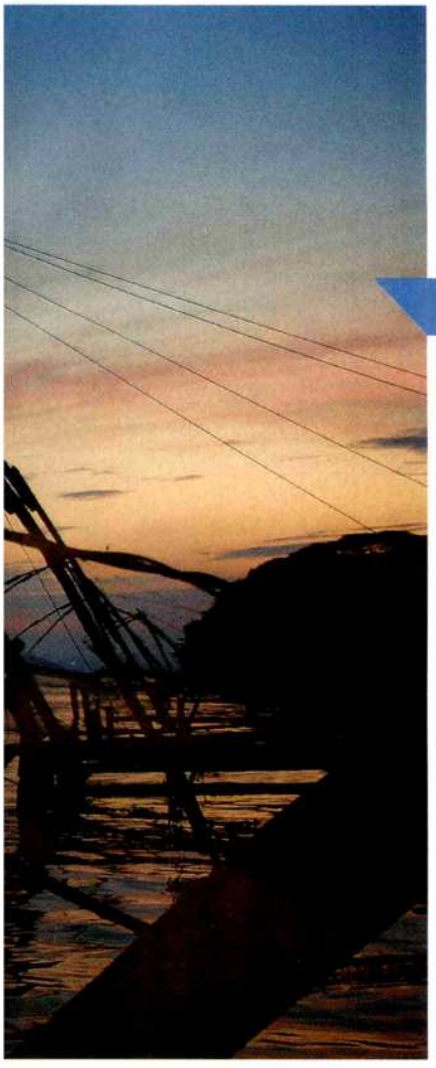
God's Own Challenges

Despite a boom in commodity prices, tourism and remittances, Kerala faces grave problems. BY T.V. MAHALINGAM

At 5.45 in the morning, the only sounds at the beach in Fort Cochin are the cawing of crows. They swirl around the gigantic Chinese fishing nets spread out on the sand. A South Korean tourist, Kim (she refuses to give any other name) takes pictures.

In the photo-friendly light of dawn, her otherwise perfect pictures are marred by one little detail — a rash of bright lights on the horizon from the International Container Transshipment Terminal, or ICTT, inaugurated in February by Prime Minister Manmohan Singh.

Even as Kerala prepares for assembly polls in April, the setting — the fishing nets, the tourist and the terminal — perfectly represents its economy's past, present and future. The fishing nets (along with agriculture) point to its traditional economy focused on its natural resources like fertile land and abundant water. The second element, tourism, is its present, powering job creation and currently contributing about eight per cent to the state's



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SNAPSHOT

- Kerala's economy grew at 9.89% in 2009/10, faster than the national average
- Tourism accounts for 8% of the state's GDP
- 77% of the state's resources are being spent on revenue expenditure as salaries and pensions
- In terms of per capita income, the state is fourth nationwide
- A serious shortage of white collared labour and militant unionism are crippling manufacturing in the state
- Agriculture employs below 30% of the state's workforce and contributes just about 12% of the state's GDP

gross domestic product, or GDP. Revenues from tourism have almost doubled since 2005. And the future of the economy lies in the creation of infrastructure like the ICTT and roadways. Yet each of these sectors faces its own sets of challenges.

Ostensibly, Kerala's economy is breezing along. Soaring commodity prices, growth in remittances from non-resident Keralites — which according to some estimates account for nearly a fourth of the state's GDP — and a construction boom have fired the state's growth rate to 9.89 per cent in 2009/10, which is above the national average. "A boom in the prices of commodities like rubber, cardamom and coconut lead the growth that we are witnessing," says Deepak Aswani, Chairman of the Kerala Chamber of Commerce and Industry. Rubber prices have nearly quadrupled in the last two years.

Kerala has witnessed a tax revenue jump of 20 per cent in 2009/10. Its per capita income is the fourth highest in the country. "The so-called Kerala model of development, characterised by high human development parameters but low per capita income, no longer applies to Kerala," says K.P. Kannan, Professor at the Thiruvananthapuram-based Centre for Development Studies, or CDS. Now, per capita income is high as well, while the success in delivering universal primary education, a high level of health care and combating hunger continues.

Yet the growth story faces challenges — some intrinsic and some external. In the traditional economy, agricultural growth has slipped. "Agriculture is going through a phase of stagnation," says Kannan, pointing out that the share of agriculture and related activities in the state's income has fallen from 22 per cent in 2004/05 to about 12 per cent last year. Employment in agriculture has fallen from about 57 per cent to less than 30 per cent. The reason: the state's educated workforce is unwilling to work at manual jobs, resulting in a decline in the gross cropped area.

Observers say that because of employment guarantee programmes like the Mahatma Gandhi National Rural Employment Guarantee Scheme, or MGNREGS, farm wages have shot up significantly. A cashew farm labourer can charge up to ₹350 a day and a skilled carpenter close to ₹450. "Today, the bulk of the farm labourers are from the eastern states of India," says Kannan.

The situation is worse in some other sectors, too. Keralites complain that many waiters in their hotels now hail from the North-east, and being unfamiliar with local cuisine, often mix up their orders. The third phase of Technopark — Kerala's oldest and largest information technology, or IT, park — is being constructed by migrant labour.

"You would probably pay ₹300

SHEKHAR GHOSH/www.indiatodayimages.com

to unload a truck in Raipur. To do the same thing in Kerala you would have to pay ₹1,000. Thanks to the militant unionism in the state, the wages for manual labour are unrealistic," says Aswani. Even today, no news broadcast on any of the state's TV channels ends without the word *samaram* — Malayalam for strike — being used at least once. Over the past year, truck drivers, bus owners, port workers, postgraduate medical students, autorickshaw drivers, taxi drivers, teachers, bankers, surgeons, and public broadcasting employers have all been on strike at some point.

When the Communist Party of India (Marxist), or CPM-affiliated trade union CITU prevented goods brought in by electrical equipment manufacturer V-Guard from being unloaded at a warehouse near Kochi, the 60-year-old Managing Director of V-Guard, Kochouseph Chittilappilly, personally unloaded the cartons. Industry watchers also point out that the multiplicity of unions in the state, each one backed by a political party, makes resolution of industrial disputes very tough.

Will Kerala ever be successful at manufacturing? CDS's Kannan asks a counter question: "Should an ecologically-sensitive, densely-populated, land-scarce state like Kerala focus on manufacturing at all?" Maybe not.

"Kerala faces the handicap of geographical location when it comes to manufacturing," says Mithun Chittilappilly, Executive Director of V-Guard. "It lies on the southernmost tip of India and almost every raw material has to pass through several states to get here." V-Guard has manufacturing hubs in Uttarakhand, Himachal Pradesh and Tamil Nadu even though nearly 30 per cent of its revenues come from Kerala.

If manufacturing is not the way forward, how does the state create jobs for its largely educated workforce? The answer lies in investing in knowledge sectors like IT and tourism.

Mithun Chittilappilly
Executive Director, V-Guard

"Kerala faces the handicap of geographical location when it comes to manufacturing"

NISHIKANT GAMRE/www.indiatodayimages.com

Technopark's CEO Mervin Alexander sees bright prospects for the IT sector in the state. "At Technopark, there are over 240 companies, employing 28,000 people. In the next five years, we will look at doubling that number," says Alexander. Technopark is also promoting a fully-integrated 450-acre township called Technocity near Thiruvananthapuram. It has already signed on Tata Consultancy Services, or TCS, to set up its Global Learning Centre at Technocity. TCS is expected to invest ₹1,500 crore.

Kerala also deserves credit for the way it has tapped into the tourism market. However, there is some concern that interest in Kerala tourism — especially among foreigners — is waning. The number of foreign tourists visiting the state fell to 557,258 in 2009/10 — a seven per cent drop from the previous year. Kerala Tourism Development Corporation Chairman Cherian Philip feels the recession in the West has affected tourist arrivals. "But we are now focusing on newer markets like the Gulf and Russia. Tourists from the Gulf usually come during the monsoon or the off season," says Philip.

Tourists are welcome, but other arrivals from the Gulf may not be good news. According to CDS's Kannan, nearly 220,000 Keralites, or nearly 17 per cent of its 1.3 million strong workforce, work outside the country, mostly in the Gulf countries. If the revolutionary cold that Egypt and Libya have caught spreads to the Gulf countries, Kerala will experience much more than a sneeze. Already, there are sniffles in Bahrain. "That's a nightmare scenario for the state. The bulk of the workers who will come back will not be the skilled workers but cab drivers and manual labourers. Their rehabilitation will be the biggest challenge the state has ever faced," says a Kochi political observer.

In the last two months, the ruling Left Democratic Front, or LDF, which has been accused of being investor-unfriendly by its critics, has been trying to speed up work on some long pending projects like the next phase of the ICTT in Kochi, the Vizhinjam Port near Thiruvananthapuram and the Smart City project in Kochi. Given the state's record of voting out every incumbent government since 1977, it is unlikely that the voting public of Kerala will view these last-ditch make-up attempts favourably. ◆

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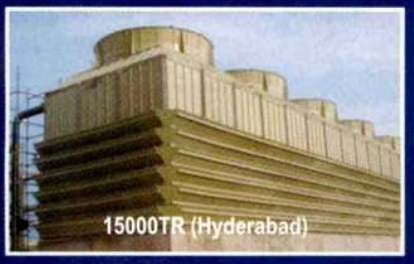
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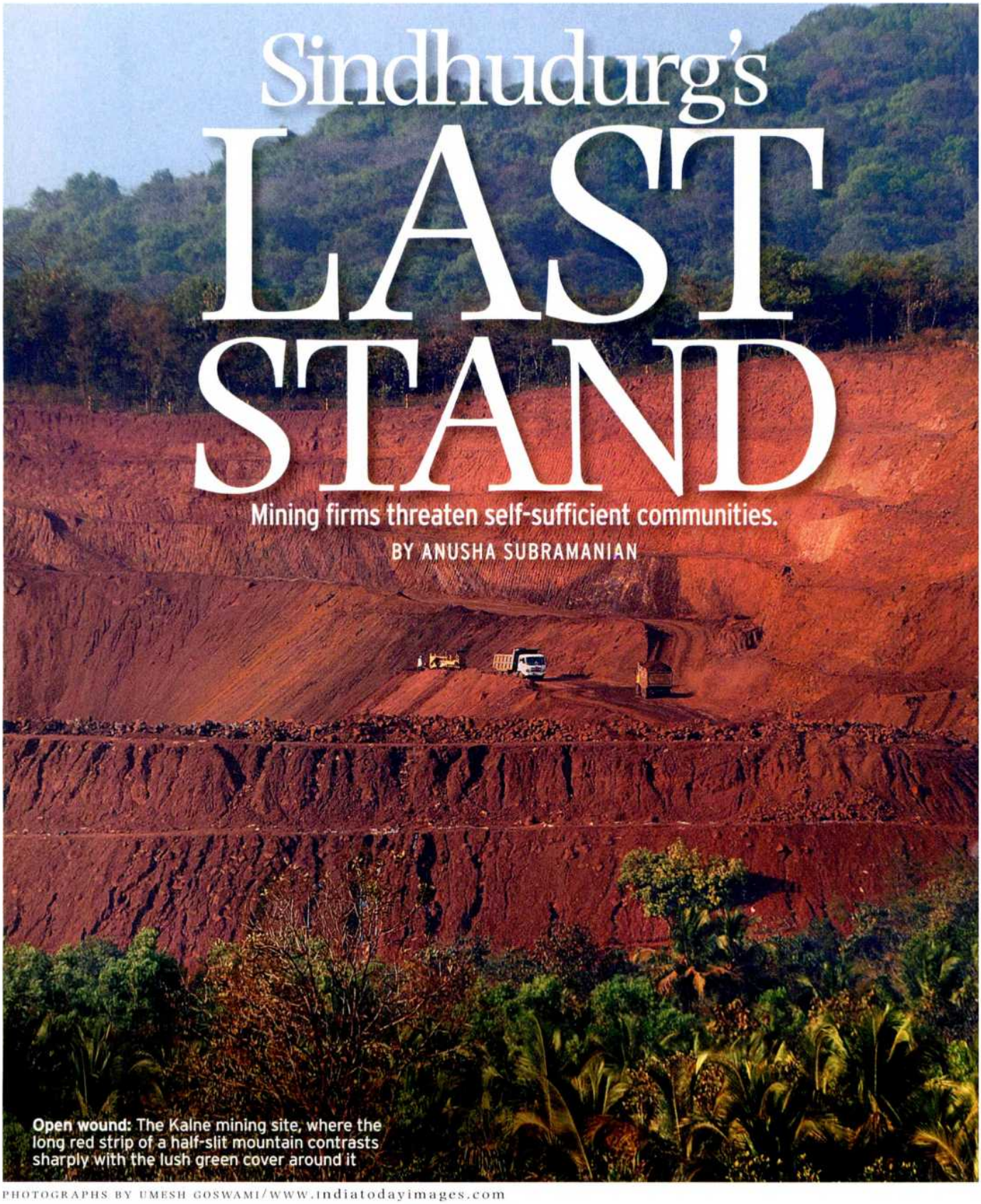
Sindhudurg's LAST STAND

Mining firms threaten self-sufficient communities.

BY ANUSHA SUBRAMANIAN



Open wound: The Kalne mining site, where the long red strip of a half-slit mountain contrasts sharply with the lush green cover around it

PHOTOGRAPHS BY UMESH GOSWAMI/WWW.indiatodayimages.com

Two years ago, Vasudeo Balwant Desai of Kalne village in Maharashtra's Sindhudurg district had 10 cashew trees that fetched him a good income. Today, five of them have died as waste from an adjacent mine is poisoning his land. Sampada Desai, the woman sarpanch of Kalne and two other villages, can only watch helplessly as excavators and earth movers gouge the lush green mountainside.

Hundreds of villagers in the Sawantwadi-Dodamarg area, opened to mining in 2007, face an end to their way of life. Their only hope lies in a directive from the Ministry of Environment and Forests, or MOEF, in October 2010, which put an eight-month moratorium on 49 mining leases given earlier. The ministry has asked the state to review the leases as these were allegedly based on faulty environmental impact assessments, or EIAS.

But the villagers know that the excavators cannot be kept at bay for long. Politically connected miners are hungry for the iron ore, manganese and bauxite that lie beneath the forests. In their trail will follow hunger. The villagers have so far been completely self-sufficient in meeting their food and water needs. But the mining will wipe out reserved forests, fruit orchards and crystal-clear streams.

On a visit to the area, BT's first halt is at Dongarpal, a small village in Sawantwadi taluka at the southern end of the district. The nearby forest abounds in wildlife, including the *shekru* or Indian giant squirrel, which is on the International Union for Conservation of Nature's Red List of endangered species. Dongarpal is among the 30 villages sitting on land leased out to mining companies.

Dongarpal, with a population of just 325, covers 350 hectares (ha), of which 319 ha have been leased out for mining. Ladu Gavas, a former sarpanch who owns cashew plantations, says 80 per cent of Dongarpal's income comes from cashew. The rest comes from coconut and areca nut. The villagers also grow vegetables, rice and millet for their own use. "On an average, the village earns up to ₹1.25 crore a year from all sources. Cashew itself earns us ₹80 lakh a year," says Gavas. "Almost all of us have land."

The 49 leases cleared included 30 in Sawantwadi-Dodamarg, the last densely-forested areas in Sindhudurg. These 30 threaten 200 sq. km of forests mostly owned by village communities.

The 5,207 sq. km Sindhudurg district, which gets its name from the sea fort built by the Maratha ruler Shivaji in 1664, serves as an elephant and tiger corridor, linking two sanctuaries in the state and a tiger reserve in Karnataka. It has a green cover of 49 per cent, the highest in the state. Sindhudurg ranks 10th in Maharashtra by per capita net district domestic product. The literacy rate is 80 per cent. People restrict their farming to flat land near water sources and avoid clearing forests.

Asaniye village, in a valley of cashew, coconut, mango and betel nut plantations, is similarly self-sufficient. Nearly 55 streams run through it and it has 389 ha of private forests. "We do not buy even rice, pulses and vegetables from outside," says Snehlata Damale, 26, a resident of Asaniye and a graduate in forestry who is preparing a public biodiversity register for Asaniye that village bodies are empowered to draw up under the Indian Biodiversity Act.

At Kalne, excavators have been at work for a year. Desai, the sarpanch, takes us to the terrace of her house. The view says it all: a long red gash in the green mountainside getting longer as excavators and dumpers work busily. "Every morning, the first thing I see through my window instead of the forests is the exposed red earth. Despite our fight against the system and the company, mining continues here," she says. She adds that the mining firm did not mark its boundaries when it began work. Now, it is dumping debris in adjacent farmlands, flouting rules requiring miners to build a chain link fence and prevent pollution of the surroundings.

The mining will cut off the Kalne river, the villagers' lifeline. "Without it, we will not have any existence. We have never had to look beyond the village for anything," says Desai. Villagers say most leases were granted on the basis of biased EIAS prepared by private agencies. Satish Ghotge, a Kalne schoolteacher, says: "The EIA

Eco Hotspot

The Western Ghats cover barely 5% of India's land. Yet 27% of all species of higher plants in the country are found here

Sindhudurg District

Declared eco-sensitive zone in 1988. Today, it is also a biodiversity hotspot, having lost 70% of its primary vegetation

TOTAL AREA: **5,207** sq. km
AFFECTED BY MINING: **200** sq. km
FLAGGED BECAUSE: Mines are in eco-sensitive area
FOREST COVER: **49%**
RESERVE FOREST: **11%**
PRIVATE FOREST: **30%**

report said there is no water source within a 10-km radius of our village, when a river flows within 50 metres."

In January 2009, the MOEF allowed mining, power projects and quarries in Sindhudurg. On April 26, 2010, the state's industries department notified 130 industries that could be allowed in Sindhudurg. Curiously, the list does not mention mining, since it is apparently not considered an industry.

The miners have offered villagers large sums in exchange for their land and promised them jobs as well. Villagers who accepted the money were given contracts to operate the trucks that carry away the heaps of dug-up earth.

The Kalne mining site sports the name of Minerals & Metals Co., a 30-year-old company. But it is learnt that the lease is in the name of Samruddha Overseas Ltd, a new company owned by Vinay Patil, son of Rohidas Patil, a Congress leader and former minister. A Samruddha official in Mumbai claimed Minerals & Metals was not flouting any rules: the closest the mine boundary came to Kalne village was 600 metres, when the rules require just a 50 metres gap.

How do the Kalne mines continue to operate despite the MOEF moratorium? "The moratorium is not on mines operational prior to August 16, 2010," replies Valsa Nair, Maharashtra's environment secretary. Nair confirms a review of the 49 leases suggested by the MOEF is underway. So how are mining leases still being given? "I am told there are no mines in the wildlife corridor," she says.

The mine itself is illegal, going by the Indian Bureau of Mines' list as on January 1 this year. The list says Kalne mines plea to carry out mining was "rejected/returned" on December 15, 2009. Operations started here in September 2009. Nair says she is unaware of this.

Non-governmental organisations, or NGOs, say the nearby Redi port shipped out ore worth ₹80 crore in 2010 from the region. Redi is home to mining companies like New Indian Mining and Gogte Minerals, which have been in the business for decades.

At the Redkar Charitable Hospital outside Redi village, Dr Mohan Jagtap is studying the effects of mining on people's health. "Our research project is looking into health hazards, but we have not arrived at any conclusions yet," he says. However, most of the villagers have respiratory disorders, he adds.

New India Mining denies being the cause of any health problems. An official says the company has been operating in Redi for four decades and 90 per cent of its workers are locals. It has been taking good care of them, he claims.

NGO activists differ. "At Sindhudurg alone, we are talking of a ₹25,000-crore mining industry. Mining companies never fill up the hole left behind or replant vegetation," says D. Stalin of Vanashakti, an NGO.

The old players also blame the new ones for the mess. "All mining companies have to follow regulations such as sprinkling water to check dust levels, creating a green belt and avoiding inhabited villages. But the new companies are not adhering to these and are bringing a bad name to the industry," said an official of a mining company at Redi who did not want to be named.

Vaishali Patil of the Konkan Vinashkari Prakalp Virodhi Samiti, another NGO, questions how mining was allowed next to a reserved forest. "There is no buffer zone ...The boundary of the mine has not been marked," she says.

"Every morning, the first thing I see is the exposed red earth ...Despite our fight against the system, mining continues here"

Sampada Desai, Sarpanch

Environmentalist Madhav Gadgil, who is also Chairman of the Western Ghats Ecology Experts Panel, had suggested development with a human face in his draft report on Ratnagiri-Sindhudurg. Villagers are now awaiting his final report, and see a glimmer of hope in a recent MOEF directive asking all states to send in their proposals to demarcate eco-sensitive areas or ESAs in and around national parks, wildlife sanctuaries and corridors, which would include a belt with a radius of 10 km around their outskirts. Dongarpal and 21 other villages have already petitioned the government to declare the region an ESA.

For now, it is a toss up between better EIAs and an ESA belt.

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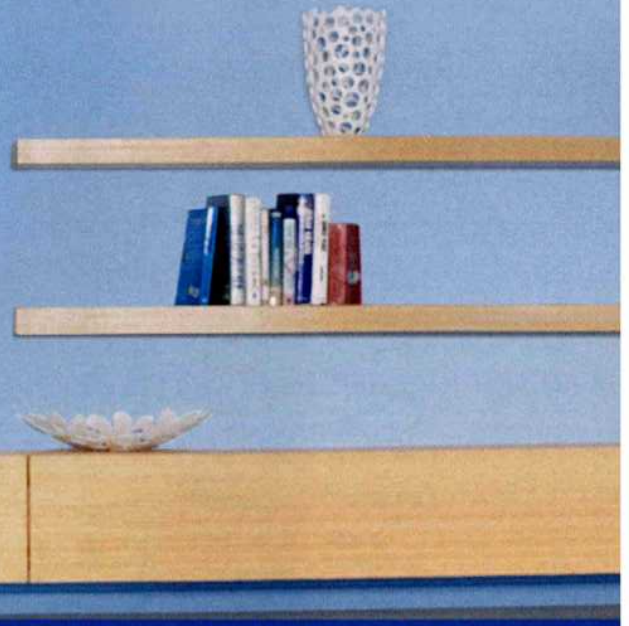

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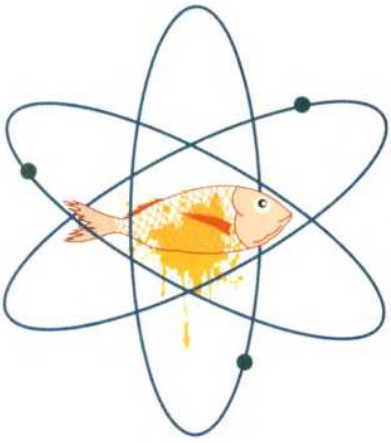


Cold War at Jaitapur

Land acquisition remains on paper as villagers oppose nuclear power project.

BY ANUSHA SUBRAMANIAN

They lift the heavy dragnet lying on the deck and unfold it slowly. In a choreographed move, Danish and his crew then cast the net into the green sea off the Konkan coast in one smooth sweep. They settle down to wait. BT photographer Umesh Goswami and I are in another boat close by, a 10-year-old trawler owned by another fisherman, Nehal Tamke.

The engines have been switched off. There are 10 of us on Tamke's trawler and 25 on Danish's. We can peer at least 20 deep into the clear waters of the sea surrounding us. After a while, Danish's crew hauls the net in. We hear a roar of delight. The net glistens with a huge catch of mackerel. We are told it is worth ₹25,000 to ₹30,000.

We are here to try and understand why these fishermen are so opposed to the 9,900 MW Jaitapur Nuclear Power Project, or JNPP, proposed to be built 10 km away.

Tamke, Danish and the others live a life in which technology plays a minimal yet critical role. Their trawlers run on Ashok Leyland diesel engines, the helmsman has a sonar to help locate shoals of fish and a walkie-talkie to talk to the spotter perched atop the boat.

But the involvement with technology ends here. Almost every boy in this area, after finishing school, would rather take to the sea than go for higher studies. These men have been fishing for generations. Their main catch comprises mackerel, prawn, pomfret, oysters and mussel.

We return to the village of Sakhari Nate from where we had set out. The village, part of Rajapur taluka in Maharashtra's Ratnagiri district, has a population of over 7,000. The seven fishing villages here have around 12,000 people, mostly Marathi Muslims.

Boat owner Majith Govalkar explains why they are opposed to the nuclear project. Their understanding is that the reactors will discharge hot water into the sea, upsetting the ecology and scaring away the fish. Given the security concerns of a nuclear plant, the government is also sure to create a security zone and ban fishing near the coast, he says. Muffazal Phadnis, another boat owner, says over 6,000 people in these villages depend directly on fishing for a living. "For the boat owners there is no other income. We do not own agricultural land," he says.

> "What gainful employment? ... We do not understand anything other than fishing"
>
> Majith Govalkar, boat owner

Sakhari Nate's 450 big trawlers and 200 small boats bring in nearly 40,000 tonnes of fish a year out of the state's total haul of 4,25,000 tonnes, says Amjad A. Latif Borkar of the Maharashtra Machhimar Kruti Samiti. Over half the village's catch is exported to buyers in Japan, China, the United States and Europe.

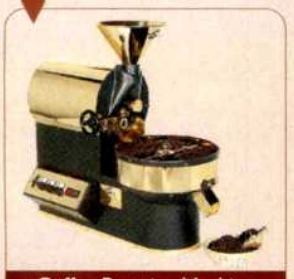
We point out that the government has worked out a ₹650-crore rehabilitation package, with offers of gainful employment for those affected by the nuclear project.

"What gainful employment?" retorts Govalkar. "We are not educated and we do not understand anything other than fishing." Their scepticism increased after some of them visited villages around Tarapur, north of Jaitpur along the coast, where India's first nuclear reactor is located, for which land was acquired in the 1960s. They heard stories of how the once flourishing fishing villages' fleet of 400 boats has dwindled to 20. "Three fishing harbours have vanished... Rehabilitation took decades," says Phadnis.

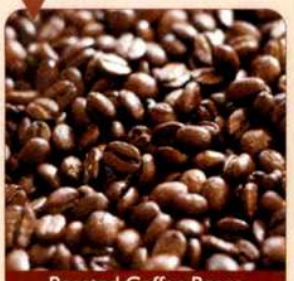
Ratnagiri collector Madhukar B. Gaikwad says the government has acquired 938 hectares of barren land at Jaitapur. The Department of Atomic Energy also maintains that the JNPP will not displace any people, since much of the land acquired was unproductive.

But we get a different picture

Green Beans



Coffee Roasting Machine



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at our second halt, Niveli village, which, together with Karel and Mithgavane, will make way for the power project's township. At the public hearing, it was pointed out that the environment impact assessment report by the National Environment Engineering Research Institute had not mentioned the cashew and mango orchards or the paddy fields in the area.

Bhagvati Vasudeo, 80, lives alone, supervising her cashew and mango plantations. Her son lives and works in Mumbai. Vasudeo has heard that the government has acquired her land. "Where will I go?" she asks.

Anil Jagnannath Tirodkar, who has lost most of his 20 acres, says when the acquisition was notified in 2007, the government had offered ₹1.25 lakh per acre for barren land and ₹1.60 lakh for cultivable land. The people refused to sell. The government kept increasing the rate. Today, it is ₹10 lakh per acre with a job for each family.

Of the 2,335 families from the five villages, only 114 owning about five per cent of the land have accepted the compensation. "The people who have accepted the money do not stay here. Most stay in Mumbai," says Dr Milind Desai of Mithgavane, who has lost 55 acres but refused the compensation. Desai is referring to the likes of Raja Patwardhan, 60, who stays in Mumbai and calls himself a small farmer. Patwardhan, who gave up the 1.25 acres he had at Madhban, says the project is in the national interest.

It is not just about fishing or land. France's Areva will be supplying reactors that opponents of the project say are based on a new and untested design (see *Heated Controversy*).

The unity of the villagers was visible during a visit by Maharashtra Chief Minister Prithviraj Chavan to the area on February 26. At a public meeting Chavan addressed, industry minister Narayan Rane made sure no dissent was voiced and even asked the police to remove "outsider" Vaishali Patil, member of a non-government organisation, or NGO, opposed to the project. (Patil is from Raigad district.) The police demurred when they saw the crowd's mood.

Chavan, an engineer by training who has been on various parliamentary committees as a Lok Sabha member, failed to convince the crowd. "I am an engineer and I have worked on this project for the last six years. So I am well aware of what it is all about," he said, blaming NGOs run by 'outsiders' for instigating locals against the project.

Rane, whose constituency is in the Konkan, has failed to mobilise support. Political analysts blame it on his brashness. "Rane is trying to show that he has control over Konkan. But he has failed," says Aruna Pendse, associate professor of Political Science at Mumbai University.

V.V. Desai, a former chief economist of the Asian Development Bank who has worked closely with the energy sector, had written a paper on how India's nuclear power programme can avoid such problems. Some ingredients of his recipe: a transparent and meaningful flow of information, sensitivity to the legitimate concerns of the people and market rates for land.

The government and the Nuclear Power Corporation of India Ltd, or NPCIL, seem to have missed it. Now, they have to confront an angry populace that does not depend on state handouts. ◆

UMESH GOSWAMI

Heated Controversy

The JNPP will have six nuclear reactors, each of 1,650 MW, made by Areva, a company owned by the French government. The 9,900 MW project will overtake Japan's 8,212 MW Kashiwazaki-Kariwa plant as the world's biggest nuclear power station.

The Coalition for Nuclear Disarmament and Peace, or CNDP, a grouping of civil society groups, says Areva's Evolutionary Pressurised Reactor, or EPR, is new and untested. A. Gopalakrishnan, a former chairman of the Atomic Energy Regulatory Board, says the fuel that the EPRs use will almost double the burn-up rate and the radioactive waste will be much more toxic than that of existing models. "EPR waste will have about four times as much radioactive bromine, iodine and caesium as pressurised heavy water reactors," he says.

The NPCIL says EPR technology has evolved on the basis of the best safety features taken from the French N4 and German Konvoi reactors. "The reactor design follows the latest international standards and guidelines. It incorporates a large number of diverse safety features," NPCIL says.

Gopalakrishnan says Areva's first EPR project, coming up in Finland, is 3.5 years behind schedule and costs are 80 per cent over budget.

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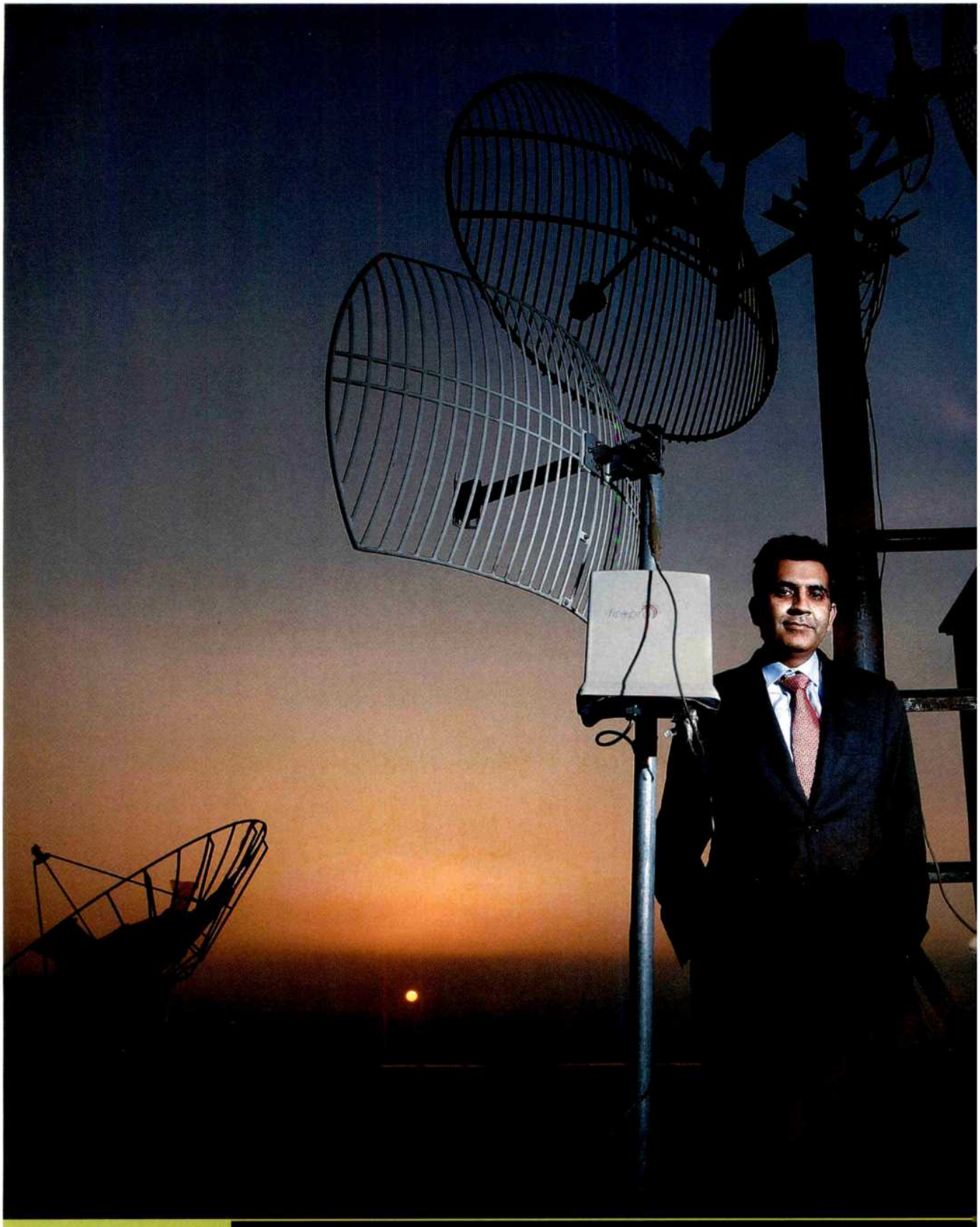

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unitech UPS & DOWNS

2006 Dec
Sponsored Unitech Corporate Parks on AIM; raised ₹3,000 crore

2007
Leverage building up; raised ₹1,700 cr from Tata Realty; applied for telecom licence

2008
Got 2G licence but had to cancel fund-raising QIP as markets fell

2008...
Lehman collapse. Telenor entered Unitech's telecom unit with 67% stake

Living on The Brink

Stumbling in and out of crises over the past few years, real estate major Unitech faces its toughest test yet. BY SHALINI S. DAGAR

The chairman's message in Unitech's annual report for 2010-11 could read like a thriller, instead of the usual talk about land banks and project launches. Look at what happened to the company: conversations between a lobbyist and her clients were leaked, its fledgling telecom venture was accused of getting licences unscrupulously and the Central Bureau of Investigation or CBI now wants "clarifications" from Chairman Ramesh Chandra. The ending could be a court scene, with the CBI announcing that it would file a chargesheet against the company.

Way back in 1972, when Chandra and some civil engineers set up the soil testing company, they could have hardly imagined their entry into real estate. As in any business, they would have factored in growth and a stock market listing (1986), business cycles, and housing booms and busts. They even had a wild ride, when foreign direct investment was allowed in construction in 2005 and realty stocks zoomed. In the first half of 2006-07, Unitech's average market capitalisation shot up to ₹14,786 crore from ₹645 crore the previous year. It issued bonus shares twice — in 2006 and 2007. It also raised over ₹3,000 crore from London's Alternate Investment Market.

Capital was plentiful and cheap. Nearly $18-20 billion in equity funds were looking for opportunities in Indian real estate in 2007. But, the Chandras, like many real estate promoters, preferred debt. Fuelled by an almost tripling of debt over a couple of years, Unitech went on a land acquisition spree (See debt timeline). It entered the markets of Chennai and Mumbai. For a real estate company, the number of its subsidiaries is an indicator of its land bank, as the law caps the amount of land a company can own. Unitech's subsidiaries rose from 68 in 2005-06 to 351 by March 2009. At its peak, Unitech's land bank had over 14,500 acres (it is down to around 7,500 acres now). As the land bank increased so did Unitech's

2009
Unitech exits telecom operationally; Liquidity low and debt at close to ₹9,000 crore

2009...
Unitech raises $900 million and launches affordable housing; cash comes in

2010
Tries to cut further debt and improve margins on realty

2011
2G scam heats up; share price plummets; gets into a legal dispute over pledged shares

2011...
Company back on track; but future still uncertain

stock market valuation. The share price at its peak after the bonus issues was over ₹600.

In late 2007, Unitech was already highly leveraged. In the annual report for 2007-08, the chairman boasted, "Over the years, Unitech has been very efficient in utilising capital and has grown to become a $6 billion market cap company with a cumulative external equity capital of under $10 million!"

Towards the second half of 2007-08, two things happened. Unitech's promoters applied for the 2G telecom licences. They wanted a new business that would help offset the cyclicality of real estate. Unitech had a small business in transmission towers in which South Korea's Hyundai had been a partner until 2004-05. Around the time, Unitech also took an advance of ₹1,700 crore from Tata Realty ostensibly against a large land transfer. Unitech later paid a nearly similar amount for the acquisition of telecom licences across 22 circles via eight subsidiaries. This transaction has become highly contentious, and several agencies including the CBI are investigating it in the context of the allocation of licences by then telecom minister A. Raja. Managing Director Sanjay Chandra, the promoter's son, however, says the transaction was business as usual (see Sanjay Chandra's interview).

Mounting Debt

By March 2008, the company's debt levels had climbed close to ₹8,500 crore. Earlier in January, the company's plans to raise over $1 billion in equity through a private placement to institutional investors in what is known as a QIP or qualified institutional placement had to be aborted as global stock markets fell. The decline affected the issue's pricing. Over the next few months, Unitech continued to look for a partner for its telecom venture and for a suitable opportunity to raise equity. Probably spoilt by the valuation expectations of the past year, the Chandras failed to close both the transactions.

Chairman Ramesh Chandra observed in the annual report for 2007-08 that the downturn would separate the wheat from the chaff. "Those who understand and prepare for the innate cyclical nature of this business will succeed. Those who have execution excellence will succeed. Those who purchased sufficient land at attractive prices will succeed. Those who have enjoyed the trust of customers will succeed. Those who kept their powder dry — and didn't waste shareholders' funds chasing their enlarged dreams — will succeed. The years have shown that your company has all these attributes," he wrote with confidence.

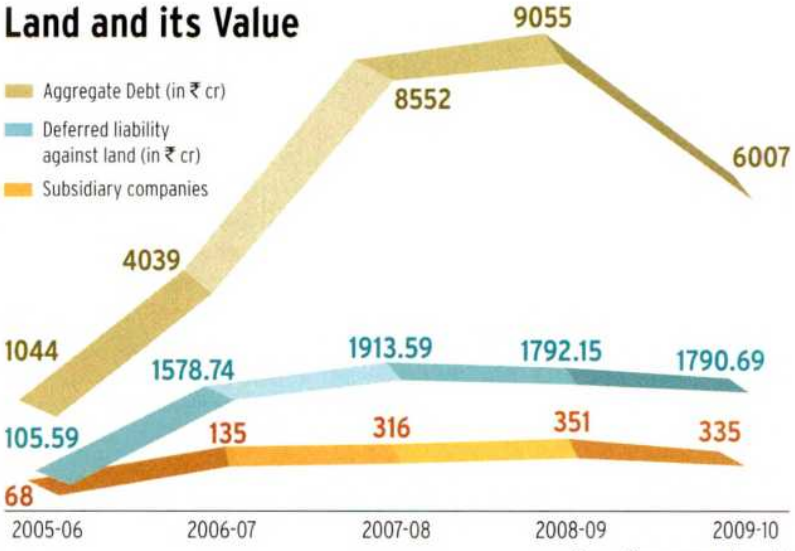
Come September and that confidence would seem misplaced. With the collapse of Lehman Brothers the global financial markets froze. That was when leveraged expansion came to haunt many Indian promoters. Unitech's share price that year dropped from over ₹400 per share to a low of even ₹21.80.

For the Chandras, the pain was acute as their core business, real estate, got affected by this negative sentiment and sales dropped. In 2007-08, the company had sold seven million sq ft. In the first half of 2008-09, sales dropped to half a million sq ft, and in the second to around 100,000 sq ft. Even as the cash flows fell, Unitech's cash and other commitments did not. Its debt levels at the end of December were ₹10,900 crore. There was talk of default on payments. It came to a point where the promoters had to pledge their shares as additional collateral. Sanjay Chandra had in an earlier interview recalled those days as "we were in the ICU."

In the midst of this mayhem, the company managed to rope in Norway's Telenor as a strategic partner for its telecom venture in late October 2008. Telenor committed ₹6,120 crore to pick up a 67.25 per cent stake in Unitech's telecom subsidiary, Unitech Wireless, which was formed by the merger of eight subsidiaries and later renamed Uninor.

Though the money came in installments, the deal ensured that Unitech's obligations and debt and guarantees adding up to ₹2,100 crore were transferred to the subsidiary. Further, Unitech's residual 32.75 per cent stake was valued at around ₹3,000 crore based on

Land and its Value

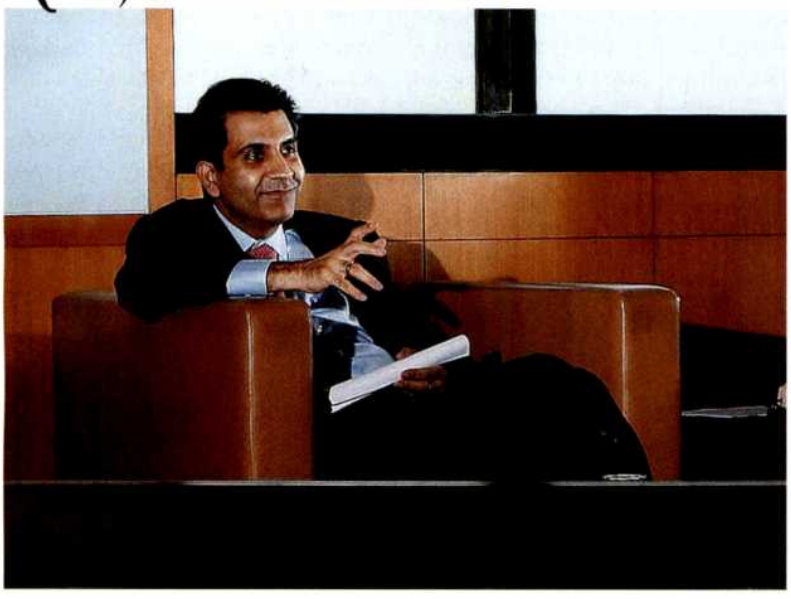


Source: Company annual reports

GRAPHICS BY SANTOSH

INTERVIEW

A question of ₹1,700 crore



Sanjay Chandra's *2011 calendar entries afford a study in contrasts. If they showed a trip to Davos for the World Economic Forum where he was hailed as a Young Global Leader, they also included a visit to the Central Bureau of Investigation headquarters in Delhi where he was questioned in a serious corruption case. Chandra, 38, however, takes it all on the chin and says, "It certainly is not fun." Here he speaks candidly to* **BT**. *Edited excerpts:*

Why were the promoter shares pledged?

During the crisis, promoter shares were offered as secondary collateral. For Unitech's own restructuring and refinancing at that time, the promoters had to provide additional collateral and guarantees. Most of these were to Unitech's lenders. We provided guarantees for over ₹1,000 crore of loans.

When do you think you will be able to redeem these pledged shares?

You will see a substantial reduction over the next six to seven months without further capital raising, just with internal cash flows. Unitech itself will either repay a lot of its debt or refinance. Once the project financing takes over and we take back those loans, it (the situation) improves. That has been happening over the past year and a half. The focus is to use your cash flows sensibly to repay the more expensive and the more heavily collateralised loans.

Is the kind of large advance that you got from Tata Realty, a normal practice?

We entered into an agreement with Tatas to sell them land in Gurgaon in an area where we had 700 to 800 acres. The entire transaction did not get consummated because of contiguity issues. We sold them land worth ₹700-800 crore and refunded the rest. It was not a loan. The transactions started in October 2007. Most transactions were done by June-July (2008).

Why is there such a close correlation between this advance and the money that went into the telecom subsidiaries?

At the same time (when we were investing in telecom), we invested about ₹500 crore of equity in Mumbai and in other businesses and also received various other monies from different sources of cash flows, including our customers. There is no linkage from our side between these transactions.

What if the telecom licences are cancelled?

Firstly, I do not think the government can just cancel without any legalities. We have replied to the show-cause notices issued against our eligibility with utmost thoroughness. The replies run into thousands of pages. Even on the rollout issue, we have approached TDSAT. Unfortunately, everyone is being clubbed as 'new' licencees, whereas some of them have not really done a rollout. Everyone is not in the same boat. I do not anticipate any issues on cancellation.

Given the trouble you faced in telecom, do you think the diversification was worth it?

At that time it seemed so. With hindsight possibly not.

Many people saw Unitech as a conservative company, and then an aggressive chasing of market cap..

Not market cap but growth. In terms of market cap our peak year was 2007 but in terms of sales the last two years have been our peak years. We have had very high leverage for around a year. If you look at our balance sheet today also it is a very conservative one.

Telenor's entry valuation.

In late 2009, Sanjay Chandra was to tell BT, "We did not have the bandwidth and we could not have done it [run the telecom venture with a minority partner] in today's times. We should have realised that a few months earlier. It would have saved us a lot of pain and value loss."

Even so, Unitech had to sell prime assets such as its corporate office in Saket and a hotel in Gurgaon. The ₹750 crore it raised was not enough to balance its debt-equity ratio, which at its peak was 4:1. Notwithstanding the poor sentiment in the capital market, in April 2009 Unitech was the first issuer to test the markets with another QIP. This issue sailed through and the company raised ₹1,621 crore worth of equity.

Other real estate companies followed suit to raise desperately needed funds. DLF's promoters sold nearly 10 per cent of their stake to raise ₹3,850 crore, days before the Lok Sabha election results were announced. As the decisive political mandate improved the market sentiment, Unitech went in for another QIP in June 2009 for ₹2,789 crore, all together raising $900 million or almost ₹4,400 crore and ending up diluting the promoter holding to 43.84 per cent from a high of almost 74 per cent in September 2008.

At the same time, the promoter group company Harsil Projects was issued share warrants with conversion rights available right up to December 2010. This issue of shares was to increase the promoters' holding by around five per cent.

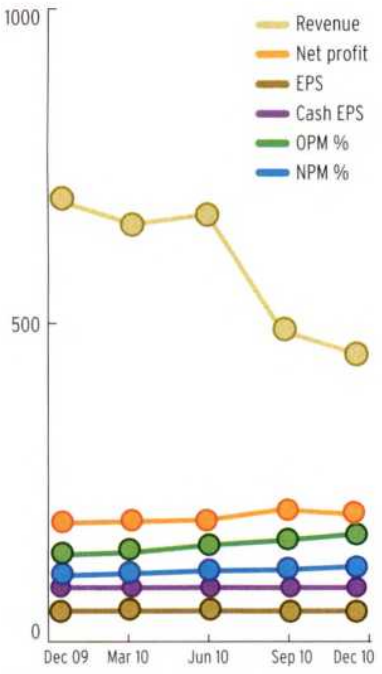
In the first quarter of 2009, Unitech launched several affordable housing projects that raked in more cash. Unitech exceeded the sales volumes of 2007. The revival continued till late 2009 and early 2010, before rising property prices and increasing home loan rates dampened demand. (See Unitech's sales)

While 2009 was a sort of resurrection for the company, the past caught up with the promoters in 2010 when the 2G licence scam became public. The stock market became their worst enemy. Unitech's share fell below ₹50 by end-January 2011. This created another problem: the promoters had pledged nearly a third of their shares against loans and had to cover the value loss either with cash or more shares. The promoters staved off a sale of the pledged shares by securing a court order. The case is still in court, although they have paid off the dues.

This event yet again highlighted the fragility of Unitech's promoters. Another recent downside was the limited review report by the company's auditors of nearly two decades, Goel Garg & Co. This has a disclaimer on the shareholding pattern.

Quarterly trends

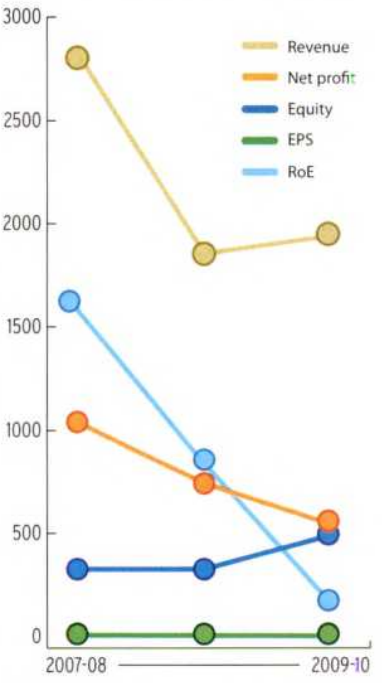
Sales show a sluggish trend



Figures are in ₹ cr Source: BSE website

Annual trends

Return on equity is sharply down

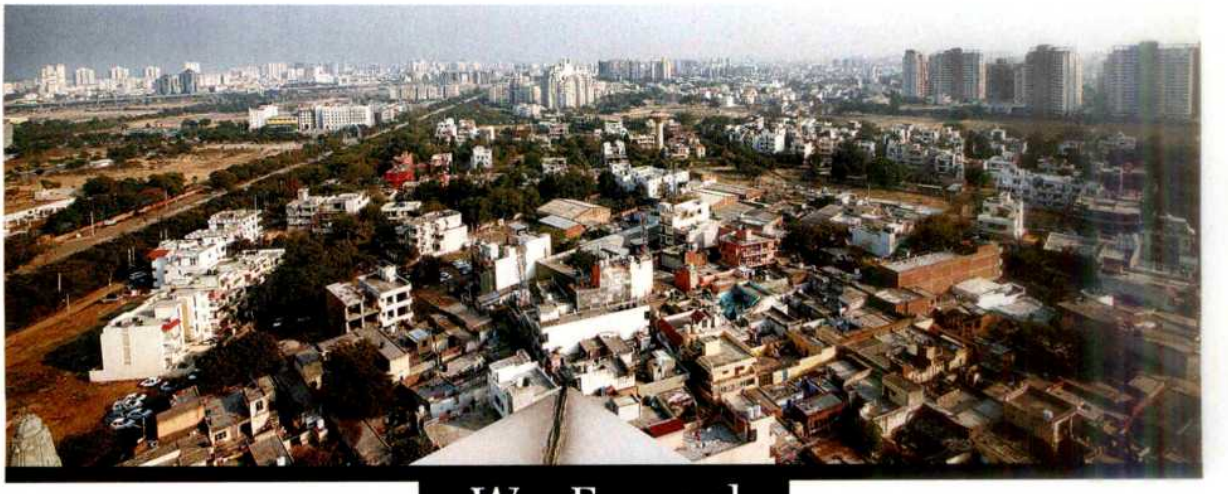


Figures are in ₹ cr Source: BSE website

Touch And Go

Though the initial pledge of shares was done at the peak of the 2008 crisis, the promoters pledged more shares to raise money for the conversion of warrants into shares. Unitech's debt and equity position improved further. Unitech's spokesperson says: "It was important to give confidence to the lenders as well as the shareholders about the intrinsic value of the company." Yet, it seems a curious case of conversion of at least a part of the company debt into personal debt of the promoters.

Meanwhile, the company seemed to have bought fresh parcels of land in the October-December quarter of 2010. Religare Securities noted: "Increase in deferred land liability by ₹540 crore suggests land purchases during the quarter." Worryingly, the auditor's review report also notes that the provisions against receivables are not "adequate". Today, the debt-equity ratio is 0.4:1, against 4:1 earlier, with total debt down to ₹4,617 crore. But any drop in sales realisations will



impact cash flows. A real estate investor points out that the problems are "only cash flow problems. I understand their assets and they are good". Yet he was wary of investing at the corporate level. "I can readily invest at the project level," he says.

Part of the wariness comes from the fact that Ramesh Chandra's sons have gradually taken over the reins, with the younger one, Sanjay, being the face behind the aggressive expansion of the past decade. Said a Unitech financier: "Unitech was one of the first builders we worked with and the experience was wonderful. Sanjay has just killed the company — over-aggression. Once you start playing the market-cap game you are dead."

Ask Sanjay about Unitech's troubles being associated with him, and he is unfazed. "It is good to be a troublemaker," he says. Sanjay, who joined the company in 2001 followed by brother Ajay, denies talk of any rift between them. "We are together. That is how we came out of the crisis," he says. *BT* contacted many people for comments, but not many responded. Most requested anonymity or did not say anything.

Those who spoke on record were guarded. "We are tenants at their malls. Our experience with Unitech has been good. They were the first ones to believe in us," says Kishore Biyani of the Future Group.

Way Forward for Unitech

Scenario 1: No penalty for those who got 2G spectrum from Raja
Result: Unitech's stake of nearly 33% in Uninor will be valued at market prices. Right now, the investment is being valued at zero. Possibility: **Low**

Scenario 2: A financial penalty is imposed on the 2G allottees.
Result: Good for the company as clarity will emerge, but there will be a financial downside. Possibility: **High**

Scenario 3: Licence cancelled and spectrum re-auctioned
Result: The value of Unitech's stake in the telecom subsidiary will be negligible. The ensuing clarity will still be positive. But if promoters' involvement is proved, then it could be disastrous. Possibility: **Medium**

There are many who vouch for the senior Chandra, though. A real estate investor says, "Ramesh Chandra is a man of his word and he does not need to do anything wrong to make money, but I cannot say anything about the others." Sanjay's response: "Our father is still very much involved with the company."

So where will it end? Prashant Bhushan, advocate and counsel of the Centre for Public Interest Litigation, which has filed a public interest litigation in the Supreme Court in the case, is clear that such tainted telecom licences should be cancelled and a re-auction held. While there is skepticism about the cancellation of the licences per se, it is clear that there will be some liability attached.

No surprise then the Unitech stock is trading at what Nomura analyst Aatash Shah calls "liquidation value" in his mid-February report. He believes the market is imposing a "penalty" of ₹7,600 crore for Unitech's involvement in the 2G scam. The share price closed the second week of March 2011 at around ₹38. Many analysts, either out of habit or out of genuine appreciation of the company's intrinsic worth, have maintained a buy on the stock.

The company will, of course, survive, but the whole saga has immeasurably dented the image of the company and the promoters. "Unitech has lost its sheen. The involvement in the scam is not just a financial loss but a huge reputation loss as well," says Arun Kejriwal, Founder of Kejriwal Research & Information Services, a market advisory firm.

For Unitech and its 'troublemaker', it is one long summer ahead. ◆

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FORTUNE IN COOKIES

Global players hungry for a bite and local firms craving a bigger share are set to reshape the Indian biscuit market.

BY RAHUL SACHITANAND, SHAMNI PANDE and ANUSHA SUBRAMANIAN

This January Vinita Bali, Managing Director of Britannia Industries, got an unwelcome New Year gift. Kraft Foods, the $49.2-billion foods giant, was suing Britannia over a new sandwich cookie, Treat-O, the Bangalore company launched a month earlier. Treat-O, the world's No. 1 confectionery maker charged, was a copy of its popular brand, Oreo.

The case, now pending in the Delhi High Court, has the makings of a bare-knuckle fight. But the biscuits industry is not surprised. When what's at stake is a piece of a ₹12,600-crore market, expanding at a rapid 10 per cent annually, regular business *can* get nasty. Not only is India's biscuits market the largest by volume, the category also makes for the biggest piece — more than one-tenth — of the domestic fast moving consumer goods market.

The business has so far been dominated by three players — Parle Products, Britannia and ITC. But battlelines could be redrawn as a raft of multinationals led by Kraft and PepsiCo make a beeline for India. In the past year alone, Britain's United Biscuits and GlaxoSmithKline Consumer Healthcare, or GSKCH, have had several launches, while the go-national plans of some regional players have taken off. French foods giant Danone, too, is waiting in the wings.

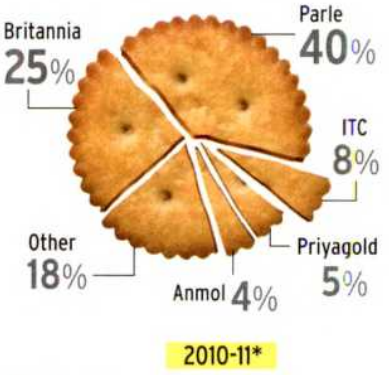
And, the range is expanding: if United Biscuits has come up with an assortment of products under its McVitie's brand, GSKCH has introduced Horlicks biscuits for toddlers in animal shapes, and

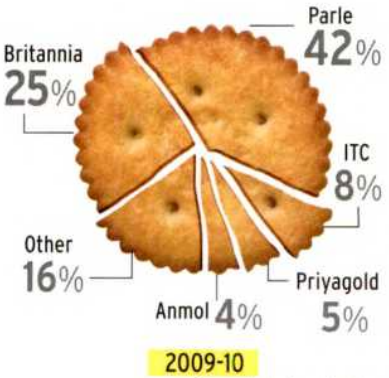
extended the Horlicks range to new options like crunchy cornflakes and bubblegum flavour. Britannia has expanded its NutriChoice range from plain vanilla digestive biscuits to spice-flavoured and diabetic options. ITC too has come up with new variants like Marie Light and Marie Light Orange.

Sales of biscuits have risen. And it helps that they already have mass acceptance. Pinakiranjan Mishra, Partner, Retail and Consumer Practice, at consultancy and audit firm Ernst & Young, thinks biscuit manufacturers do not face the sort of hurdles breakfast cereal makers did when they entered India in the 1990s. "Biscuits are seen as a healthy snacking option," he says.

Tasty Bites

Market share in revenues





*Estimate in Dec

Source: Industry estimates

GRAPHICS BY SANTOSH

High Glucose Tolerance

Market share estimates vary depending on which company you ask, but according to market research firm Nielsen, Parle Products, for the first time, snatched the top spot by volume sales from Britannia in the last quarter of 2010. Parle, with a dominant share in the glucose biscuits category, has been ahead in terms of revenue share for some time now (see *Tasty Bites*). Glucose biscuits refer to plain biscuits made of wheat, sugar, vegetable oils and skimmed milk powder.

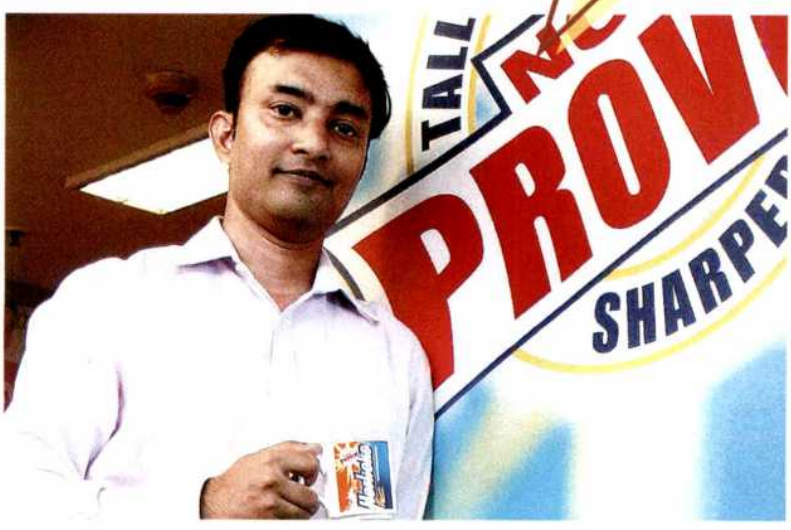
Both firms refuse to get into specifics. "We have been ruling the market for many years in multiple categories and doing well in glucose, cookies, salty and cream segments," says Parle's General Manager (Marketing) Pravin Kulkarni. Britannia denies it has lost share and Bali claims it remains India's No. 1 biscuits brand. "The share of glucose biscuits in the overall market is down from 31 per cent to 27 per cent," she contends, referring to the biggest sub-category in the biscuits market, while declining to give a source for the statistic.

Though demand for glucose biscuits remains strong, "the segment has seen few product launches in the past two to three years," says Raghavendra Rao, Consumer Markets Analyst with Datamonitor.

Still, what Parle has going for it is volume. Parle G, its glucose biscuit, is the top-selling biscuit brand by volume sales in the world, according to a Nielsen report. And with such scale comes pricing power: most Parle products are priced in the range of ₹4 to 6 for 100-gram packs, opening up new consumer segments. Sunil Alagh, founder of SKA Advisors and former head of Britannia, thinks the ₹5 packs made the "traditional *chai*-biscuit the most popular healthy snack option". "Small packets brought in new buyers, who would have considered other foods earlier," agrees E&Y's Mishra.

SHUBHAJIT SEN, Marketing Head, GlaxoSmithKline Consumer Healthcare

"Our products should be the health motivator or differentiator of the category"



Helping Parle is also its ride into the premium segment of creams, cookies and crackers. Parle's 20-20 has built a 18 per cent share of the cookie market over three years, eat-

ing into Britannia's Good Day, whose share is down to 28 per cent from 33 per cent. In the past four years, Parle Kreams has captured one-third of the cream biscuit market, where Britannia Treat is down to one-fifth. Parle seems to have played its other cards well too. It has built an excellent marketing and distribution network. Of the total 6.5 million retailers across the country who stock biscuits, Parle Products has a direct presence in 4.7 million. Even the rest are mapped through wholesalers.

Others who do not enjoy that advantage are pushing into the more lucrative categories. The cookies segment — accounting for 10 per cent of the total biscuit revenues in India and dominated by Good Day and Parle Hide & Seek — has seen a flurry of activity. Besides McVitie's and Oreo, other launches include the Voortman, Waitrose, Murray and Pepperidge Farm Inc varieties. The local offerings include Choco-Nut from ITC, Tiger Crunch from Britannia and Hide & Seek Milano from Parle, apart from goodies from smaller players like Saj Foods and Spencer's Smart Choice.

The domestic players' portfolios tend to mirror one another. While Britannia's Pure Magic is being targeted by ITC's Dark Fantasy, its popular Bourbon faces competition from Parle too. KrackJack, the oldest in the salt-and-sweet category, was revamped by Parle to stop Britannia's 50-50 onslaught. This results in eating into one another's market share, says Natasha D'Costa, Senior Research Analyst at Frost & Sullivan, a research firm. "As the market expands, established players will lose share to newer and nimbler rivals," agrees Alagh.

Health biscuits, like digestive or sugar-free ranges, are also gaining ground. Bali believes this will be the next battleground — as consumers not only buy more biscuits but also become more health conscious. Britannia has fortified its offerings with additional proteins and fibre to lure this new buyer.

Thought for Food

Britannia is aware the biscuit is up for grabs and it needs a quick strategic shift to retain its market. "The Indian market will get more competitive and new entrants, especially MNCs, will bring in innovation," says Bali, describing the challenges facing existing players. Britannia has launched at least 40 new products or variants in the past year, compared with around 20 launches in 2008 and 2009.

"We have been experimenting with new flavours," says Parle's Kulkarni. "We have appointed actors Ravi Kisan and Rituparna Sengupta as our Monaco brand ambassadors to catch more eyeballs in regional areas." Kisan is a Bhojpuri actor and Sengupta acts in Bengali movies.

"We like to sell superior products," says Chief Executive Chittaranjan Dar. "The market is not homogeneous... different consumers want different products at different prices." So ITC, which grabbed a 10 per cent market share with Sunfeast in 2003 but made little progress after that, launched "at least a dozen new products or variants last year and expects to maintain the momentum".

Despite its global heft, Chicago-headquartered Kraft has been flying below the radar in India. "Oreo is one of our leading brands with global revenues in excess of $1 billion," was all its spokesperson would say while pointing out that the cookie has been imported into India since the early 1990s. Experts like Alagh feel Kraft can piggyback Cadbury's, which it acquired in January 2011 and use its strong retail network. Kraft is in talks with at least three local players as it finalises its India plans, say insiders.

GSKCH, which launched its biscuits business in India in 1992, decided to take on Britannia in the milk biscuits sub-category— biscuits that have

VINITA BALI, Managing Director, Britannia Industries

"The Indian market will get more competitive and new entrants, especially multinationals, will bring innovation"

DEEPAK G PAWAR

milk as an ingredient in addition to all that goes into a regular glucose biscuit — with its Horlicks biscuits priced a notch higher. "We are the second biggest players with a 20 per cent share in this sub-segment. We have already overtaken ITC's Sunfeast Dream Cream in the ₹220-crore fruit cream segment, with the launch of bubblegum and orange cream range flavours in September," says Shubhajit Sen, Executive Vice President, Marketing. GSKCH is eyeing small but profitable areas to dominate and be a health motivator. Both these market shares relate to the December quarter as per Nielsen data estimates.

United Biscuits is available in 125 cities, according to India President Jayant Kapre. "We are not testing the waters. We are very much in them... We have captured almost 25 per cent of the digestive segment with McVitie's," he says.

Australia's Unibic has tied up with Food Bazaar to launch a private label called Tasty Treat for the retail chain. There have been media reports that domestic consumer goods firm Marico could acquire the business to make its entry into the biscuits market. Sen and Marico declined to comment.

PepsiCo India has taken the spicy route. Aliva — a cross between Indian savouries *bhujia/matthi* and biscuits — was launched in June 2009. The "protein-rich" offering combines wheat and lentils. PepsiCo plans to go further by extending the Quaker brand to oats cookies. "Our play in biscuits will be led by innovations rather than any category definition," says Vidur Vyas, Marketing Director, PepsiCo Foods India.

Growing Appetite

The biscuit boom has also emboldened K.D. Paul, owner of Bisk Farm, once manufacturer and distributor for Britannia, to hunt for fresh pastures. Paul, who until recently focused on the East, wants to go South with his Butter Biscotti and Just Ginger biscuits. He has bought land near Bangalore and hopes to turn it into Brisk Farm's southern hub. "We are within touching distance of Britannia in the East and want to replicate the success down South," says Paul.

Bisk Farm is not the only one wanting more. Alagh, the former head of Britannia, believes there is a viable role for regional players like Priyagold, Cremica and Anmol. Demand from rural markets, accounting for half the biscuit sales in India, is growing at 20 to 25 per cent a year. Rural markets account for around 30 per cent of revenues for Britannia and Parle, and over 50 per cent for regional brands. Bali thinks this is where the future lies: "Innovative packaging has made biscuits the most affordable and safest snacking option in rural India.. she says.

Notwithstanding the fast-growing numbers, per capita biscuit consumption in India is only 2 kg a year, compared to 2.5 kg in the Philippines and Malaysia, and as much as 10 kg in the US and UK.

The competition will soon get fiercer. The Kraft-Britannia case is just the beginning, say industry observers. Britannia's earlier spat with ex-partner Danone over the Tiger brand was just the trailer.

Biscuit manufacturers have other headaches too. "Rising raw material costs are impacting our business," Bali grumbles. The compounded annual inflation for flour, sugar, dairy products and fats has risen to around 9 per cent from 3 to 3.5 per cent in 2005. Milk prices are up 25 per cent over the past year while sugar has almost doubled in two years. Parle, Britannia and ITC have experimented with price rises and weight reduction in the glucose segment.

Profitability for biscuit makers, then, is down but it is clear that when it comes to the world's biggest market for biscuits, it will be a no-holds barred battle for a share of the market — built biscuit by biscuit. ◆

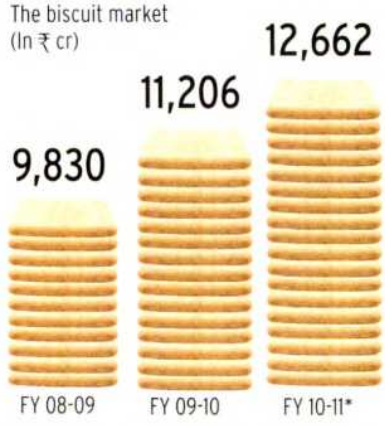
CHITTARANJAN DAR, Chief Executive, ITC Foods

"The market is not homogenous ... and different consumers want different products at different prices"

DEEPAK G PAWAR

Big Mouthful

The biscuit market (In ₹ cr)



*Estimate in Dec

Source: Industry estimates

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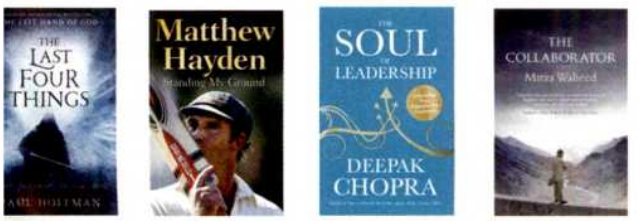

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Tree-farming Yields Bumper Harvest

Hit by the Forest Conservation Act, ITC chose the difficult option of farm forestry and came up trumps. BY N. MADHAVAN

The year was 1980. ITC, the tobacco major, through its subsidiary ITC Bhadrachalam and Paperboards (since merged with the parent company), had just commissioned a 40,000-tonne integrated pulp and paper mill — India's largest — at Bhadrachalam in Andhra Pradesh, 350 km east of Hyderabad. The location fitted in perfectly with the company's plan to make the unit the core for its paper business and attain global scale. It was close to the Godavari river (paper manufacturing is a water-intensive process), while Singareni Collieries was just 40 km away — coal is an important feed stock. The Andhra Pradesh government had also assured supply of wood from bamboo forests nearby.

Then, the unexpected happened. The Forest (Conservation) Act aimed at checking deforestation was enacted in October 1980. The Act sought to regulate the use of forest lands and ensure these are no longer exploited indiscriminately for raw materials.

As a result, in 1982 the Andhra Pradesh government went back on its commitment to ITC for assured supply of wood from the state forests. The unit by then was consuming about 1,50,000 tonnes of wood (eucalyptus/casuarina) annually. Though the company managed to continue production by entering into a temporary arrangement with the state government for extraction of bamboo, the writing on the wall was clear: it had to act quickly to ensure sustained raw material supply or cut back production.

The company decided to approach the farmers of Khammam district — in which the town of Bhadrachalam lies — for its raw material needs, and started a plantation department in 1982.

ITC's bold move to source its raw materials from farmers by getting them to grow eucalyptus/casuarinas met with much resistance. Between 1982 and 1989 the company could get eucalyptus/casuarina plantations going on only about 2,000 hectares.

> ITC not only ensured sustainable wood supply for its mill, but is also **now a carbon positive company**

"We had two options before us: import pulp from Brazil and Indonesia or put up pulping capacities in other countries where abundant raw material was available. Both moves would amount to exporting jobs to other countries. We were also keen to build a natural resource base. So we decided to take a third, most difficult route — that of farm forestry," says Pradeep Dhobale, Executive Director of ITC.

"The farmers were reluctant for many reasons. The crop cycle of eucalyptus varieties that were available then was seven years and farmers were not financially strong enough to handle such a long cycle. Also, productivity was low at six to 10 tonnes per hectare. The plants had a low 40 per cent survival rate due to their low resistance

THE PROBLEM
Change in country's laws cut off supply of key raw material (wood) from the forests

THE OPTIONS
Either import pulp or shift pulp making capacity abroad. ITC decided to go in for farm forestry instead

THE CHALLENGE
Convincing farmers, who saw eucalyptus farming as risky and unremunerative, to take it up

THE SOLUTION
ITC invested in R&D, developed high-yielding varieties and devised attractive buyback schemes for farmers

PHOTOGRAPHS BY MONEY SHARMA

COMMENDABLE EFFORT

Any initiative sustains automatically when its successful implementation has a positive impact on the business. In this case, the issue was of insuring the fragile raw material condition through farm forestry. The need to meet growing volumes through expanding hectares and going for better varieties and strains of eucalyptus was but natural. A higher yield per hectare and higher survival rates have resulted in a significant lowering of raw material prices and thus enhanced business profitability.

That ITC is carbon positive, in addition to being water positive and solid effluent positive, is indeed commendable. ITC can add to its green credentials by looking at the type and extent of usage of electrical and other fuel-based energy, overall plant efficiency and raw material consumption. The more efficient the operations, the better is the input utilisation. It can also look at reducing the consumption of fresh pulp and increasing the ratio of recycled raw material. Also, substituting coal with waste-based or renewable energy based fuels could offer good results.

RAGHAVENDRA RAO,
Senior Director, Manufacturing & Process Consulting Practice, Frost & Sullivan, South Asia & Middle East

The management can work towards reducing power consumption, wastewater heat recovery, water recycling and reuse. The units should also show a trend of reduction in requirement of "fresh" water for plant operation on a per tonne basis of paper produced. Dust emissions should also be mapped and systematically addressed. Air quality has to be routinely monitored.

Wood from the farms being unloaded at the factory's yard

to pests, drought or floods," says H.D. Kulkarni, Vice President for Plantations at ITC.

By then the Bhadrachalam unit's raw material requirement had increased to 1,80,000 tonnes. The idea of farm forestry was also increasingly beginning to be questioned within the organisation. ITC, nevertheless, held its course. It still saw an opportunity. It was aware people in the region were looking for alternative crops that would be pest and flood resistant, offer better income and require less looking after — the region had a large share of absentee landlords and wasteland. It believed an improved eucalyptus crop could meet these needs.

Thus, in 1989 the company started a full-fledged research and development programme. "The idea was to clone various varieties of eucalyptus, casuarina and subabul (a large, fast-growing shrub) and arrive at ones offering higher yield, better resistance to pests, flood and drought and, most importantly, had a reduced harvest cycle," says Kulkarni, adding that seeds were also imported from Australia and the United States (Hawaii) for the purpose. "It took us four years to learn the art of propagating clones vegetatively. By 1992, 10 clones were ready," he adds. Today ITC has 107 high-yielding clones of eucalyptus and 12 clones of subabul.

Cautious Acceptance

Beginning with 15 hectares in 1992, the area under new varieties increased to 1,247 hectares by 1996, and today stands at 1,14,428 hectares (467 million saplings). At first farmers waited to see the results. Once convinced, acceptance rapidly increased. "The new varieties gave a higher yield of 50 tonnes per hectare, the survival rate of plants was a high 95 per cent and the crop life cycle dropped to four years from seven earlier. The crop became less risky and more profitable," says T.V. Chandrashekara Rao, a farmer at Venkatareddy Peta village, 11 km from Bhadrachalam, and among the first to take to eucalyptus.

Today, ITC has overcome the raw material shock. In the financial year 2009-10, it sourced 99.41 per cent of its wood requirement from its farm forestry programme. It also created 50 million person days of employment for tribal and marginal

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CHANGE FOR THE BETTER

I remember the Bhadrachalam plant of 1997— a mid-size mill that consumed more than 200 tonnes of water to produce a tonne of paper, used chlorine to bleach paper and discharged effluents into the Godavari river.

Fourteen years down the line, things seem to have changed drastically at the plant — and for the better. Today, ITC's farm forestry business is a case study in management classrooms as a model effort, and the company takes pride in, and widely publicises the fact that it is carbon, water and waste positive. One can have differences with the methodology used in arriving at these conclusions, but the fact remains that the company seems to have internalised these transformational ideas, which will pay rich dividends in the future.

CHANDRA BHUSHAN, Deputy Director, Centre for Science and Environment; Head, Green Rating Project, which rates Indian paper firms

The company still faces huge challenges. Its water and energy consumption is still high. ITC is planning to double its paper production capacity, and I believe it should use this opportunity to set up India's first chlorine-free paper plant which will allow it to completely recycle and reuse all waste streams. It will also have to keep expanding its farm forestry programme to meet future pulpwood requirements. All this will not be easy, but if ITC wants to become a truly sustainable company, there is no other path to tread.

Wood being fed into a disc chipper, which cuts it to chips measuring 20 mm in size before being fed into the chip digester

farmers. Its social forestry programme, which entails giving seedlings and other inputs free to tribals, has benefited 22,322 poor households in 525 villages in the state, earning them close to ₹11.74 crore so far.

Carbon Positive

This initiative along with other green measures have made ITC a carbon positive company. ITC's Sustainability Report 2010 says that by March 2010 the company had emitted 1,709 kilotonnes of carbon dioxide while reducing 4,785 kilotonnes through its farm forestry programme covering 1,01,462 hectares.

However, challenges remain. There is a general perception that eucalyptus is a water guzzler. Indeed, in neighbouring Tamil Nadu the government has banned its cultivation on forest lands. Company officials are at pains to dispel this notion. "Only if the trees stand for a long time do their roots go deep into the water table. Our trees are cut in four years and their roots do not go below two metres. They live on rainwater," says Kulkarni. He quotes research to show that average water consumption per kg of biomass for eucalyptus is 785 litres, while it is 3,200 for cotton, coffee and banana, 2,400 for sunflower and 1,000 litres for potato and maize.

Another challenge is the need to increase production to meet the surging demand for paper. India consumes about 10 million tonnes of paper every year. Dhobale expects the industry to grow at 10 per cent. The per capita consumption of paper, paperboards and packaging in India is still a low five kg compared to China's 45 kg and 300 kg in the US.

ITC is planning to pump about ₹6,000 crore into its Bhadrachalam plant to more than double its capacity. This will mean a much larger farm forestry programme.

Y.C. Deveshwar, Chairman of the ₹26,260 crore giant, proudly announced at the recent annual general meeting that ITC was the only enterprise in the world of its size to be carbon positive, water positive and solid waste positive for successive years. He chose to invest heavily in innovation as only that would help ITC to maintain its sustainable business credentials. ◆

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MONEY

Banking on Mutual Funds

Indian investors have always believed in bank deposits. Now mutual fund houses are trying to woo them through customised schemes. BY DIPAK MONDAL

RAJAT BARAN

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Mutual funds, or MFs, are trying hard to wean away the conservative Indian investor from bank deposits. MFs, over the last decade have emerged as a popular investment option, as they offer a wide array of products aimed at investors with varied risk appetites and investment objectives. But still, over 40 per cent of household savings, according to a Karvy Private Wealth report, find their way into bank deposits. The MF industry, which has been able to tap just about 3.8 per cent of household savings till now, is planning to bite into that pie with greater product diversification and innovation.

Several companies have launched a slew of products with risk profiles and tenures. *Money Today* does an in-depth analysis of schemes that offer some interesting alternatives to the bank-obsessed investor. Here is a look at the fare on offer.

40%

of household savings in India go into bank fixed deposits, bonds and savings accounts

3.8%

of the country's total household savings is invested in different mutual funds schemes

Liquid Funds vs Savings Accounts

The primary objective of having a savings account with a bank is to ensure that your surplus cash remains safe and completely liquid. Along with this, you also earn a yearly interest of 3.5 per cent. Liquid schemes of funds come very close to such accounts.

Such schemes are often used by high net worth individuals, or HNIs as savings accounts. Money in a liquid fund can be redeemed within a day of submission of a withdrawal application. These funds invest in money market instruments — certificates of deposit, commercial paper, treasury bills, government securities and other debt papers with maturities of up to 91 days.

Besides being liquid in nature, these funds offer higher and more tax-efficient returns than your savings accounts. While you earn an annual interest of 3.5 per cent in savings account, by investing in liquid funds you make 5.5 per cent on an average. You can invest for as short a period as one day. No exit load is charged for withdrawal.

Abhinav Angirish, founder and managing director, Abchlor Investment Advisors, says: "One can invest in liquid funds for very short periods — a day or a fortnight. No banks would allow you to open a savings account for such a small period. The interest rate is also higher than that offered by a savings account."

How liquid funds beat savings accounts: The net asset value, or NAV, of liquid funds are declared even on Saturdays and Sundays. Besides, the investment is done on the previous day's NAV. These two features attract a large number of investors to such funds.

Consider a situation where you have received a large sum on a Friday to be used for a certain purpose on Monday. So, instead of keeping the money in your bank, you can invest it in a liquid fund at Thursday's NAV and earn a decent return.

Another strategy used by investors to benefit from liquid MFs is to invest a certain amount in a liquid fund and systematically transfer it to an equity fund. This strategy helps you gain from the liquid fund as well as from the equity fund.

A similar approach is used by Bharti AXA liquidity scheme to woo investors. The daily gains from Bharti AXA Liquid Fund and Treasury Advantage Fund are transferred to Bharti AXA Equity Fund or Bharti AXA Focused Infrastructure Fund.

Prateek Agrawal, head, equity at Bharti AXA Investment Manager, says: "The average annual return given by liquid funds is between 5 and 5.5 per cent. If you transfer only the daily gains from liquid funds to equity funds, it will not only give capital protection benefits but also high equity returns."

But so far, these funds are mostly used by institutions and HNIs for parking their short-term surplus money. However, financial planners say retail investors should also look at these funds to make smart gains.

Tax implications and expenses: There is no getting away from tax on dividend income which is 25 per cent for liquid funds and 12.5 per cent for other debt funds. Also, capital gains tax is applicable on liquid funds, as it is for all debt funds. In a typical debt fund, the long-term capital gains tax without indexation is 10 per cent, while it is 20 per cent with indexation. Short-term capital gains tax is

While you earn annual interest of 3.5 per cent on your deposits in savings account, you make 4 to 7 per cent in liquid funds.

Top 10 MIPs in terms of 5-year returns

Scheme Name	RETURNS (%) 1 YEAR	3 YEARS	5 YEARS
Reliance MIP(G)	6.49	12.82	11.52
Canara Robeco MIP(G)	7.82	8.39	11.51
HDFC MIP-LTP(G)	8.76	10.07	11.11
ICICI Pru Child Care & Study Plan	10.67	8.11	10.62
Birla SL MIP II-Savings 5(G)	5.42	10.98	9.69
HSBC MIP-Savings(G)	4.37	6.70	9.66
Birla SL Monthly Income(G)	6.30	7.60	9.64
L&T MIP(G)	4.53	5.50	9.36
UTI MIS Adv(G)	4.91	6.73	9.29
LICMF Floater MIP-A(G)	6.00	6.38	9.28

Source: Accord Fintech

Top 10 FMPs in terms of 3-year returns

Scheme Name	RETURNS (%) 1 YEAR	3 YEARS	5 YEARS
Tata FIPF B3-Reg(G)	2.05	7.07	8.99
Tata FIPF C3-Reg(G)	1.28	5.61	6.52
Tata FIPF B2 -Reg(G)	1.84	5.45	6.25
Tata FIPF A2-Reg(G)	1.95	5.67	5.91
FT FTF VIII-60M-A(G)	-3.37	6.23	5.17
FT FTF IV-60M(G)	-2.93	6.34	4.65
Tata FIPF A3-Reg(G)	1.90	5.80	4.64
FT FTF VI-60M(G)	-3.16	6.30	4.51
Tata FIPF C2-Reg(G)	0.73	0.69	4.44
Tata FIPF A1-Reg(G)	0.13	0.04	3.50

Source: Accord Fintech

deducted based on your income tax slab. Indexation here means adjusting your tax liabilities to inflation. The fee charged by liquid funds is usually lower — it ranges from 1 per cent to 1.5 per cent of the corpus invested.

Fixed Maturity Plans vs Fixed Deposits

According to the RBI, around ₹48 lakh crore is invested in bank fixed deposits, or FDs, in the country. And the typical FD investor is hard to please — he is conservative and is not only looking for capital protection but also guaranteed returns. But, the nature of the MF beast is such that it cannot completely guarantee returns. However, some funds have come out with schemes that have very low-risk portfolios and often generate better returns than FDs, even though they do not guarantee capital appreciation.

Fixed maturity plans, or FMPs, are closed-ended debt funds which hold debt paper with maturity periods lower than or equal to their own. This, along with closed-ended nature, minimises the interest rate risk.

How FMPs score over FDs: The closed-ended nature of an FMP ensures that the fund holds the debt papers till maturity and hence the returns are almost guaranteed. The average annual return from FMPs over the past three years, however, has not been too high, ranging from 6.5 to 7 per cent, but more than half of the available plans, with maturity periods of more than three years, have delivered over 7 per cent returns.

There is a lot to choose from with FMP maturity periods ranging from three months to five years.

Tax-efficiency is another positive feature. Fund houses often launch FMPs which have maturities of just over a year — 370 or 390 days. FMPs with such maturity periods help investors benefit from double indexation (*See Benefit of Double Indexation*), where capital gains are adjusted for inflation twice, once in the year of investment and then at the time of maturity.

The disadvantage: The closed-ended nature of FMPs can prove to be a spoiler for investors, as they cannot redeem their investments prematurely. The only way to get out of an FMP is to sell the units on a stock exchange. However, transaction volumes for FMPs are abysmally low, making the funds virtually illiquid.

In case of FDs — barring the ones used for tax savings under Section 80 C — investors can make premature withdrawals by sacrificing a bit of interest income, which is just 1 per cent less in case of premature withdrawals. Alok Singh, head, fixed income, BNP Paribas Mutual Fund, says FMPs were closer to FDs in their former avatar when early exits were allowed. "With the ban on withdrawal before maturity, FMPs certainly are less attractive."

"You can invest in liquid funds even for a day or two. **You can't open a savings bank account for such a short period.**"

ABHINAV ANGIRISH,
Founder and MD, Abchlor Investment Advisors

Capital Protection Funds vs Bank FDs

Capital Protection Funds are closed-ended schemes with tenures ranging from one to five years. These funds invest a large portion (up to 90 per cent) of their portfolio in good quality debt paper with maturities similar to tenures of the schemes, and the rest in equity instruments. While the money invested in debt instruments

tries to recover the principal amount, the return from the portion in equity adds to it, giving capital protection and good returns.

However, investment in these funds cannot be redeemed prematurely and hence liquidity is a concern.

Kalpen Parekh, deputy Chief Executive Officer, IDFC Mutual Fund, says: "Capital protection funds have recently been offered and investors are keen on them. FMPs have been more popular as they invest only in debt instruments and offer similar risk and return profile like conventional debt instruments. In the last six months, FMPs have added around ₹50,000 crore of assets between retail and corporate investors."

MIPs vs Bank Monthly Income Schemes

Mutual funds have been pitching monthly income plans, or MIPs, as a source of regular income for investors against the monthly income schemes, or MIS, of banks. MIPs are debt-oriented hybrid funds with over 65 per cent of portfolio invested in debt instruments and the rest in equities.

These schemes pay regular dividends. Bank schemes are FDs with interest paid in monthly installments.

Mutual funds MIPs try to offer returns which are better than bank FDs with the help of their exposure to equities. While interest on bank FDs ranges from 6 to 9 per cent, MIPs have given an average return of between 6 and 7 per cent over the past five years with the better performing funds giving between 10 and 12 per cent.

"Equity exposure of MIPs makes them more attractive in terms of returns than monthly schemes of banks. Market risk also increases with the equity component," says Anil Rego, Chief Executive Officer, Rights Horizon, a Mangalore-based financial planning firm.

"Equity exposure of MIPs makes them more attractive than **bank monthly income schemes in terms of returns**"

ANIL REGO,
Chief Executive Officer, Rights Horizon

However, investors must remember that dividend payouts in MIPs are subject to availability of funds. If the scheme is making a loss, it is possible that the fund house may not pay dividend. In 2008, many MIPs skipped monthly dividend payments due to adverse market conditions.

Dividends on MIPs are taxable at 12.5 per cent. One way to escape the dividend distribution tax is to go for a growth plan and choose a systematic withdrawal option.

Under systematic withdrawal, you can either withdraw the capital appreciated portion or a predetermined amount. Any withdrawal within a year of investment though invites a 1 per cent exit load.

Recurring Deposits vs SIPs in Mutual Funds

How often do you go for goal-based savings such as putting a sum aside for your children's education or marriage, for buying a car or for a holiday abroad? Banks offer recurring deposit schemes, where a small amount can be saved every month to create funds to meet future goals.

Interest rates in recurring deposits are the same as FDs and the maturity period varies from one to five years.

But if you find the interest rates not very attractive, you can try out a systematic investment plan, or SIP, of a good equity fund. The returns are generally higher, but they are riskier too.

"It is possible that at the time when you need the money, equity markets may have fallen sharply and your investment may have shrunk," says Dewang Shah, an independent financial planner.

The above mentioned schemes are well-thought out and smartly carved to tap a larger chunk of Indian household savings. But analysts do not see them as perfect replacements for traditional banking products. Most MF products have risks involved, which make many risk-averse investors quite wary. How the still-nascent MF sector addresses the issue, remains to be seen. ◆

Courtesy: Money Today

Taxation of mutual funds & fixed deposits

	EQUITY FUND	DEBT FUND	FIXED DEPOSITS
Tax on dividend	Nil	25% on liquid funds 12.5% on any other debt funds	NA
Long-term capital gains tax	Nil	10% without indexation, 20% with indexation	As per income gains tax slab
Short-term capital gains tax	15%	As per income tax slab	As per income capital tax slab
TDS	NA	NA	Applicable when interest income exceeds ₹10,000

Source: Scheme information documents

Andhra Pradesh Investor-friendly

Industrious Leadership

The Government of Andhra Pradesh guided by Chief Minister Sri. N. Kiran Kumar Reddy is creating an investor-friendly environment in the State. The dynamic Chief Minister is in tune with the times and understands the contribution of industrial growth towards the balanced development of the State.

Industrious efforts are being made in Andhra Pradesh to uphold the status of the state as a preferred destination for investments. Exhorted by a futuristic leadership, a transparent and empathetic bureaucracy is actively implementing the Government's proactive policies.

Chief Minister Sri. N. Kiran Kumar Reddy is keen on building a strong and vibrant industrial economy that creates large scale employment opportunities to improve the lives of the State's citizens.

Sri N. Kiran Kumar Reddy
Chief Minister of Andhra Pradesh

The forward-looking Chief Minister's mantra for the all round development of the State is an unwavering commitment to stability and continuity. Inspired by his leadership, the stakeholders, cutting across all sectors, are contributing to the sta industrial growth with the aim of catapulting the State major player in the glo economy.

"The ultimate objective of Government is to make And Pradesh as the number industrialised State surpass developed states like Guja Maharashtra, Tamil Nadu Karnataka," said Chief Mini Sri N. Kiran Kumar Re while announcing the cleara of proposals for 25 indust worth Rs.25,672.43 cro investments with a di employment potential of 41, and indirect employment 1,20,000. The 25 indust being set up and expanded Food &Agro (5 uni Automobile (3), Cement Glass (1), Steel and Ferro A (5), Mineral (sand) Chemical (1), Ceramic (1) Tyres (1) and will be spread 14 districts.

State's vision

The State Government's vision is: "To build a strong and vibrant industrial economy that spins off large capital formation in the State and advances the inclusive development of all sections of people and all sectors of the industry, and that creates increasing employment opportunities, and raises wage incomes to higher levels through skill up-gradation so as to improve the quality of life of citizens in the State."

"We have launched huge infrastructure projects like Ports, Airports, Highways, Express Ways, Metro Rail, Irrigation projects and become a role model state for the entire country in this rega said Chief Minister N. Kiran Kumar Re highlighting the contribution of qua infrastructure in fuelling inclusive growth.

"The ultimate objective of the Government is to make Andhra Pradesh as the number one industrialised State surpassing develope states like Gujarat, Maharashtra, Tami Nadu and Karnataka,"

-N. Kiran Kumar Reddy
Chief Minister of Andhra Pradesh

ggest FDI in recent times

one of the biggest Foreign Direct Investment (FDI) ınufacturing Projects in the State during the recent ıes, the State Government and M/s Brighton Equipment rporation of USA signed a MoU for setting up of .2900 Crore Nuclear Power Equipment Plant at kkapally Village, Viskhapatnam district. About one h personnel will be provided with employment after completion of this plant in the next 5 years.

dustrial base: Vibrant & Diversified

e State enjoys strong and growing presence in - ɔwledge-based and high-technology sectors such as IT, ɔtech, Pharma, Aviation and Space Technology; ource-based industries such as Mining, Cement, Steel, xtiles, Agro-industry and Food Processing; and labour-ensive industry such as Garments and Leather ɔducts. The State known as the "Rice Bowl of India" has untiful natural resources. With its 972-km coastline, the ıte is the largest producer of marine products with 40% ıre in country's exports.

hile identifying the fully diversified industrial base as : State's core strength, the ***Chief Minister said: "in the ckdrop of all its inbuilt potentials for employment ıneration, natural resources, abundant pool of trained ınpower, good governance and investment-friendly licies, Andhra Pradesh is the ideal global investment stination."***

PB – the catalyst

e State Investment Promotion Board (SIPB) headed by ıief Minister Sri. N. Kiran Kumar Reddy is the catalyst enabling the State to be on par with the best in industrial velopment as investments worth Rs 3,07,178 crores are her under implementation or in the pipeline.

ıe industrial map in the State is bound to witness new lestones as 330 projects with an investment of Rs. 655 crores are under implementation at present. These ɔjects will provide employment to 106405 people. It is ther heartening to note that 1061 projects are in the tial stages with a proposed investment of Rs. 221523 ɔres there by creating jobs for 231382 people.

Singapore evinces interest

The Singapore Government, businessmen and industrialists are interested to invest in the State and a delegation is expected to visit Andhra Pradesh, informed the Consul-General of Singapore in a recent meeting with the Chief Minister.

PSUs to the fore

Six PSUs have already submitted proposals to the State Government for investing Rs.44,800 crore. They are: BHEL-BEL's Solar PV Modules Unit, BDL's two missile units, HAL's helicopters manufacturing unit, ECIL's electronic equipment manufacturing unit and BEL's Radar Testing Unit.

Industrial development: giant strides

The State took giant strides in industrial development in the last seven years. The investment flow in to the State's industrial sector has multiplied mainly because of the proactive initiatives of the Government. The State's large, medium and small industrial sectors received investments worth Rs. 50856.70 crores during 2004-2011 as against Rs. 15271.74 crores during 1997-2004.

The industrial units established during 2004-2011 are 25809 as against 22108 units during 1997-2004. About 545073 people obtained direct as well as indirect employment during 2004-11 while 371772 people were provided employment during 1997-2004.

Advantage Andhra Pradesh

- Industrious Leadership
- Best Investment Destination: RBI
- Single Window Clearance System
- World-Class Infrastructure
- Highest number of SEZs
- Top-notch R&D Institutions
- Rice Bowl of India
- Largest Producer of Marine Products
- Leader in Hydroelectric Power
- Pioneer in Biotechnology
- Bulk Drug Capital
- World's 5th best Airport
- India's First Green Field Airport
- Lowest Power Tariff
- Innovative Industrial & IT Policy
- Deep Talent Pool

Proactive Policies

The State's "Industrial Investment Promotion Policy (IIPP) 2010-2015" focuses on Creation of Quality Infrastructure, promotion of Manufacturing Investment Zones and Industrial Corridors, special focus on MSMEs and inclusive development to build competency in Women and Scheduled Caste & Scheduled Tribe entrepreneurs.

The State registered tremendous progress under IIPP 2005-10 in the past five years. The State had implemented an investment of Rs.40,120 crore providing employment to 4,57,900 people. Of which, Rs. 29, 152 crores pertains to Large Scale Sector and the remaining Rs. 10,968 crores related to MSME's sector.

Andhra Pradesh's IIPP targets investments to the tune of Rs 75,000 cr. over the next five years. The IIPP envisages employment opportunities to 5 lakh people.

> **"This most happening and progressive State is recognised as the best investment destination in the country by the RBI. You have glorious and unlimited opportunities. You have the best infrastructure and lowest power tariff. You have the most pro-active government and innovative industrial and IT policy. You have the single window clearance system and transparent and ever friendly bureaucracy. You have the best international airport at Hyderabad and a number of Institutes of excellence. All your interests will be taken care of."**
>
> **-N. Kiran Kumar Reddy**
> Chief Minister of Andhra Pradesh

Sensible Incentives

The Government has offered a special package of fiscal benefits to mega industries. The State Government understands that large industries with high capital investment and economies of scale will have multiplier effect by creation of ancillaries and SMEs and also for large scale employment generation. These Mega Projects will be considered for tailor-made benefits on case to case basis.

The State's focus is on thrust sectors like Food Processing, Pharmaceuticals/Bulk Drugs, Biotechnology, Auto Components, Defense & Aerospace, Electronics, Apparel and Textiles, Semi Conductors and Solar PV Manufacturing for further industrial growth.

Info-age Government

With a vision to become a major player in the informat economy, the State is determined to leverage ICT transforming into an Info-age (inclusive, networked, f open, accountable, globally benchmarked and effici Government.

The share of IT exports from Andhra Pradesh occu 15% of national IT exports. The IT/ITES industry in contributes to 0.57% share of national GDP. The Stat ranked 4th in IT performance in the Country.

Exports: on the rise

The exports from Andhra Pradesh are grow consistently year after year. During 2008-09, the State exported goods and services worth of Rs.77, 605 cro recording a growth of 35% during 2008-09 over previous year. The growth is led by software exp (Rs.32,509 cr), Engineering items (Rs.13,783 cr), A forest products (Rs.5,799 cr) and Mineral and Min products.

The State aims to double the exports of goods and servi from the present value of Rs.71,000 crore to Rs.1,42,(crore, in line with the nation's Foreign Tra Policy 2009-14.

PCPIR: enormous opportunities

The State has notified 603.58 sq. km of coastal stre between Visakhapatnam and Kakinada f implementation of Petroleum, Chemical a Petrochemical Investment Region (PCPIR). The PCPI served by the three ports and two airports. The PCPIR w attract a minimum investment of Rs. 3.42 lakh cro providing employment opportunities to about 12 la people. The HPCL has decided to develop refin complex at Visakhapatnam by investing Rs.40,000 cr in PCPIR.

annavaram - Green Field Industry

NTPC and BHEL joined hands to set up state-of-the- Power Plant Equipment Manufacturing Unit at nnavaram Village near Srikalahasthi, Chittoor trict. This "Green Field Industry" with a proposed estment of Rs. 6000 crores will provide direct loyment to 6000 people and indirect jobs to 25000-00 people.

Zs: highest in the country

tal of 73 Special Economic Zones (SEZs), the highest he country, have been notified with a proposed stment of over Rs. One lakh crores. These SEZs will vide employment to nearly 90,000 people. The State ernment is making every effort to create basic astructure for SEZs to attract number of firms.

orld's 5th best airport

lerabad has the distinction of having the first green l International Airport of the country. The airport is ted as the 5th best Airport in the World. The ourable Prime Minister has laid the foundation stone 1st September, 2010 for up-gradation of Tirupati ort as an international airport.

rdware cluster

ed on the Union ministry of Information Technology Communications' (IT&C) directions, Software hnology Parks of India (STPI) is proposing to set up a 00-acre hardware cluster in Hyderabad

rtifying ports

khapatnam, the State's major port, is the only Indian having three International accreditations -ISO9001, 14001, OHSAS18001. Andhra Pradesh enjoys the lit of being the first state for development of ports in private sector at Krishnapatnam, Gangavaram, ampatnam and Kakinada.

KG Basin: immense possibilities

The State is blessed with abundant natural resources as the vast natural gas reserves found in Krishna–Godavari (KG) basin is one of the largest gas discoveries in India in the Eastern Region. It has opened up immense possibilities for environment-friendly industrial development with greater efficiency and cost effectiveness in Andhra Pradesh.

The State is involved in the exploration and production in the KG Basin through 'A.P. Gas Infrastructure Corporation Limited (APGIC)' with the participation of the APIIC and APGENCO.

Happening Hyderabad

Hyderabad, the State capital, is the confluence of North India and South India. World Bank in its report - "Doing Business in India – 2009", has ranked Hyderabad as the 2nd best metro city in India. Industries like IT, ITES, Pharma, Bio-technology etc., contribute to the transformation of Hyderabad as a global city.

The State Government visualizes a Hyderabad that would be a great place to work, live and invest. The Government is for fast-paced development of critical infrastructure that would spur the rapid development of the Hyderabad.

The 71-km long Hyderabad Metro Rail project and Outer Ring Road (ORR) project are sure to ease the congestion.

The 11.6 km-long P.V. Narasimha Rao Elevated Expressway, the longest elevated such facility in the country, connects the city to Rajiv Gandhi International Airport, the city's world-class green-field airport.

Issued by I & PR

LAST BUT NOT LEAST

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Pedalling for Pleasure

Discover your city on bicycle. Tour operators are springing up to help you do so.

BY RAHUL SACHITANAND and ANUSHA SUBRAMANIAN

Jayesh Morvankar of Odati Adventures (in orange vest) rides alongside clients near St Thomas Cathedral, the first Anglican church in Mumbai built in 1718

PHOTOGRAPHS BY UMESH GOSWAMI/www.indiatodayimages.com

(Left) Cyclists at Kala Ghoda, (centre and right) Riders at the Marine Drive in Mumbai

Having lived in Mumbai for over 20 years, Ashwini Kapila had seen his fair share of India's financial capital. But it wasn't until 2005, that the Managing Director of Barclays Capital India took a bicycle ride in the city. He signed up with Odati Adventures, a Mumbai-based Adventure Sports Company, to tour South Mumbai on bicycle on a Sunday morning. An avid cyclist, Kapila, then 33, was instantly hooked by his six-hour tour which took him through Colaba, Fort, Ballard Estate, Kala Ghoda, Marine Drive — places he had often driven by but had never stopped to explore. Since then, he has been on at least six more tours, covering the whole of South Mumbai, known for its amazing history and heritage.

Kapila may have been among the first clients of the still-nascent guided bicycle tourism business in India. But lately many others have been following his example. Across Bangalore, Delhi and Mumbai, an increasing number of expats, business executives, students and even housewives are pedalling to discover, or rediscover, Indian cities.

Thirty-two year old Mumbaikar Kirti Chavan took his first ride in September 2010, again with Odati Adventures. The tour, which took him past the St Thomas Cathedral, Asiatic Town Hall at Horniman Circle and the Gateway of India, was just the beginning. In the past six months, he has been on seven such trips. "I think it is a great way to see this beautiful city and know its history," he says. "I will probably go on a couple more rides until I feel I know enough about Mumbai and its heritage."

A few months before Chavan took his first ride, 36-year old Dutchman Jack Leenars was leading his first group of sightseers on bicycles in Delhi on a cold January morning around Shahjahanabad and Civil Lines in the northern part of the Capital. Leenars was no newcomer to Delhi. He had spent six years here, working with Dutch daily *De Telegraaf*.

It was while cycling for the first time in India — at Hampi in North Karnataka in 2003 — that Leenars decided to eventually make a business of it. Naturally, this did not happen overnight. He chose Delhi to operate in, and it was only seven years later, in early 2010, that he felt he had mastered the routes and got the hang of the supporting logistics to plunge in full time.

CYCLING'S JOYS...

- No better way to take in the sights of a city than by cycling slowly past them
- Cyclists can stop wherever they want and for as long as they want
- Cycling groups are small and thus get more individual attention from tour organisers
- When roads are relatively empty free-wheeling is a breeze

... AND WOES

- Heavy road traffic makes cycling dangerous. Hardly any Indian city has lanes reserved for bicycles
- Bicycle tours business can be expensive – Art of Bicycle Trips in Bangalore cost upwards of Rs 15,000 a bike
- Parked bicycles, specially expensive ones, often get stolen

A year later, his company, called Delhi By Cycle or DBC, conducts 40 tours a month. It offers three options: the Shah Jahan tour and Yamuna tour, both in Old Delhi, and the Raj Tour in Lutyens Delhi. The tours cost ₹1,350 per person and run through the week.

"Delhi has a unique mix of cultures, great history in every street corner and beautiful parks," says Leenars, adding that he wants his cycle tours to cover the entire city.

Organised bicycle tours have been a part of leisure activity in the West for some time now. New York, for example, has a 260-km cycling trail, which is very popular. European cities like Vienna and London too run similar tours. Amsterdam is a cyclists' paradise. In India, however, such tours face obvious problems. There are hardly any dedicated bicycle lanes. Nor is there any encouragement from the government.

Arun Pai, a former consultant who founded BangaloreWalks in 2003 — which provides walking tours of the city — tried hard last year, with support from bicycle maker BSA, to organise cycle tours too. He failed. "The economics go haywire," says Pai. "You can handle no more than seven to eight people, but you actually need 20 to 25 to make money."

But such challenges have not deterred others. In Bangalore, engineering graduates Pankaj Mangal, Pradeep Sharma and Gaurav Mehndiratta began Art of Bicycle Trips eight months back. Art of Bicycle Trips organises two tours — a 15-km tour on Sunday mornings across Victorian Bangalore and a 40-km trip to Nrityagram Dance Village on the outskirts. It is only a weekend hobby at present, but Mangal thinks the business can break even in the next 12 months.

"This is brilliant," says Richard Hornby, an18-year-old tourist from Britain who took the Victorian tour. "I've been cycling for 10 years back home. This is a comfortable way to see the city." Sanjay Kamath, a senior manager at Philips India, who has been in Bangalore for eight years now but seen little of it, has also signed up. "We've finally seen the inside of monuments we otherwise drive by daily. We also get to meet different types of people," he gushes.

In Mumbai, Odati Adventures founder Jayesh Morvankar himself leads all tours and gives clients a peek into the history of Mumbai — pointing out significant spots, elaborating on the Gothic architecture seen. "We started six years ago and now get an average of 12 to 15 people on most Sundays," he says. Odati charges ₹1,250 per person, which includes bicycle hire, breakfast and lunch. Is it a commercially viable proposition? "Of course," says Morvankar. "Otherwise I would not be doing it for six years."

In its first year, Odati organised just four to five cycle rides a year which has gone up to 25 at present, emboldening Morvankar to offer cycle tours by night too. Apart from the weekend cycle tours off city limits, however, all tours are still held only on Sundays, the only day when traffic is sparse. Now, Woodside Inn, a continental restaurant in Colaba, has tied up with Odati to conduct rides for its customers — a three-and-half-hour tour that starts and ends at the restaurant.

The trend is fast catching up. Mumbai is seeing its share of bicycle clubs while more and more cyclists are taking to the streets on the weekends in other cities as well.

However, there are still problems galore. Chaotic traffic and the absence of bicycle lanes remain huge deterrents to city cycling tours. Getting tourists to pedal through the bedlam of Connaught Place in Delhi or Lower Parel in Mumbai is not only a challenge, but also fraught with risk. Further, bicycles are expensive — Leenars in Delhi pays ₹5,000 for his gearless BSA cycles, while the 22-gear ones in Bangalore cost more than ₹15,000. Maintenance takes time and effort. Costly bicycles are often stolen. Chalking out and fixing a safe yet interesting route is another challenge for the operators.

"We have been offering cycling tours of Vienna since 1996. It is ideal for cycle tours because most sights are centrally located and we have many bike paths," says Austrian Rick Watts. "The main challenge is offering a good tour. Since there are bookings from all over the world, good guides are equally important."

The challenges have not deterred the fledgling community of bicycle tour operators in India. "It's the best way to explore new places, as I discovered," says Leenars. "And I wanted to share the experiences with others." More and people are buying the idea. And gearing up to make discoveries of their own. ◆

Pankaj Mangal, one of three founders of Art of Bicycle Trips, which takes guests on bike tours around what was once Bangalore Cantonment

DEEPAK G PAWAR/www.indiatodayimages.com

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Small Wonder

Alto is the world's largest selling hatchback, no mean feat for a car in its 10th year.

It might be a decade old, but the Maruti Alto has been setting the sales charts alight. Last year, Maruti Suzuki rolled out the next generation version of the Alto with a new K-Series engine, the Alto K10. The result: Alto's monthly sales numbers grew 66 per cent from 21,000 units to 33,000 units, making it the largest selling hatchback globally. This year, analysts expect the Alto to maintain the pace or move even faster, selling over 400,000 units. So, what makes this car so popular?

Maruti says all it had to do was split the Alto into a sub-segment and create more options for the buyer. "Not many people understand that splitting the market creates a lot of demand," says Mayank Pareek, Maruti's Managing Executive Officer for Marketing and Sales.

Alto's success also rebuts the argument that India is a purely price-driven market. Tata Motors' Nano, currently the cheapest car, sells only about 6,000 units a month, after a 16.5 per cent year-on-year growth in the quarter ending December 2010. So, has Maruti stolen the thunder from Ratan Tata's idea of the mass car? Darius Lam, Senior Market Analyst at JD Power and Partners, a market research firm, believes the ₹1-lakh tag touted by Tata Motors has become been a millstone around the brand's neck, instead of helping Nano's sales. "Possibly there is a perception of the Nano being too 'cheap' and buyers see the Alto as more of a proper car," says Lam, adding: "It is still early days for the Nano and you have to remember that Tata Motors has faced production problems."

Pareek also maintains that there is enough headroom in the Alto sales for further growth as 45 per cent of car buyers look for purchases in the cheapest, small car segment. Apart from Hyundai Santro and Tata Nano, there are not many players to address the ₹2.5 lakh to ₹3.5-lakh market.

Some analysts feel Nano buyers are those who do not have the means to maintain a car and it will be difficult for Tata to market the product. "A car is not a one-time buy. There are running costs involved like fuel," says Pareek. It is important for a buyer to be able to afford this segment. Experts say that the Alto buyer is an already upgraded buyer who can afford a car.

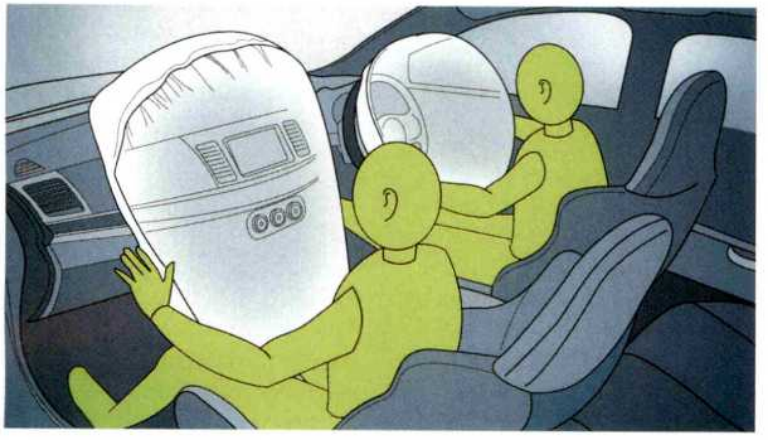
Also, after the much-hyped booking of the Nano, Tata's marketing left much to be desired. "Thirty per cent of the bookings got cancelled after a year. It is only recently that they have started to market themselves," says Deepak Jain, an auto analyst at Sharekhan, a brokerage firm. There is a ₹96,000 price difference in ex-showroom prices between the Nano's and Alto's base models in Delhi.

Analysts like Jain believe that Nano will continue to sell no more than 6,000 to 7,000 units. As the Alto turns the car of choice for young Indian drivers, it looks poised to become the next Maruti 800. ◆

SUNNY SEN

Better Safe than Sorry

Three new car safety features that are worth paying extra for.



SRS - Airbags

Supplementary Restraint System – Airbags are plastic bags located in the steering wheel and dashboard of a car, which balloon out to protect the driver and front seat passenger in case of a frontal collision. They are another source of protection in the event of an accident, along with the seat belts provided. In fact, if an airbag deploys while the passenger is not wearing a seat belt, it could cause him additional injuries. Airbags are also a reason why car companies abroad advise parents not to seat children in the front seat as children run a risk of suffocation from them.

TCS/ASR

The Traction Control System or the Anti-Slip Regulation takes ABS a few steps further. It is a standard feature in all-performance cars and also on all luxury vehicles available in India. When a driver puts power to the wheels in very slippery road conditions, a vehicle could simply spin out of control particularly if it has a powerful engine. The system prevents this by regulating the amount of power that reaches each wheel. In really advanced cars, this works in conjunction with engine computers, which could limit the amount of throttle that a driver can apply.

KUSHAN MITRA

ABS

The Anti-Lock Braking System is one of the first additional safety features now available on most mid-size vehicles and small cars, though it was initially developed for aircraft. While many in India do not see the need to invest in ABS for their vehicles, this technology is on the verge of being made mandatory in several countries. ABS improves the braking effectiveness of a car dramatically. It does so by not allowing the wheels of the car to lock when brakes are applied, by varying the amount of braking force on the wheels depending on the conditions. This is particularly helpful when a vehicle is turning or on a slippery surface. While this feature is not mandatory in Indian cars, those buying new cars should definitely go in for it.

ILLUSTRATIONS BY SANTOSH

Tough Times Ahead for iPad 2

But Apple has a compelling argument against Android tablets

While launching the iPad2, Steve Jobs trotted out a barrage of figures. In the nine months since the iPad's initial launch, Apple had sold 15 million of them, he said. With net sales totalling $9.5 billion (₹41,400 crore), iPads accounted for 90 per cent of the tablet market. Speaking as one who has been using the iPad a lot over the past few weeks, its stellar success has not really surprised me. It is an excellent, user-friendly device.

But will Google's Android operating system prove a spoiler for the iPad 2, just as it has been for Apple's earlier, much-lauded iPhone?

Apple still rakes in handsome profits from its iPhone. But there is no doubt that Android is a dominant player in the smartphone space too. By volume, Android devices have overtaken Apple's in smartphones.

However, the sheer variety of devices running Android has created its own problems. Most manufacturers of Android devices have put their own "skin" on top of the Google-developed operating system, but other than HTC's "Sense", few improve the experience.

It won't be long before there are a host of iPad competitors out there running a version of Android specifically developed for tablets, the Android 3.0 "Honeycomb". The first of these tablets, the Motorola Xoom, was unveiled in the US just ahead of the iPad 2. Samsung, which made the Galaxy Tab — whose small seven-inch screen and dated Android build has been criticised — will also introduce a 10-inch screen model with Honeycomb as well.

Many of these machines, while not as thin or light as the iPad 2, will have far more impressive hardware specifications. Apple's critics have been pointing this out in blogs and forums across the Internet. But while your columnist is not exactly a die-hard Apple fanboy — as his Symbian and Android mobile devices bear testimony — he finds Apple's rebuttal to these critics compelling. The company's guiding principle seems to be that a computer's quality is not really about its hardware but what you can do with it. It is the software and services around it that matter.

If you are looking at a tablet to mainly surf the Internet and watch video, an Android tablet will do fine.

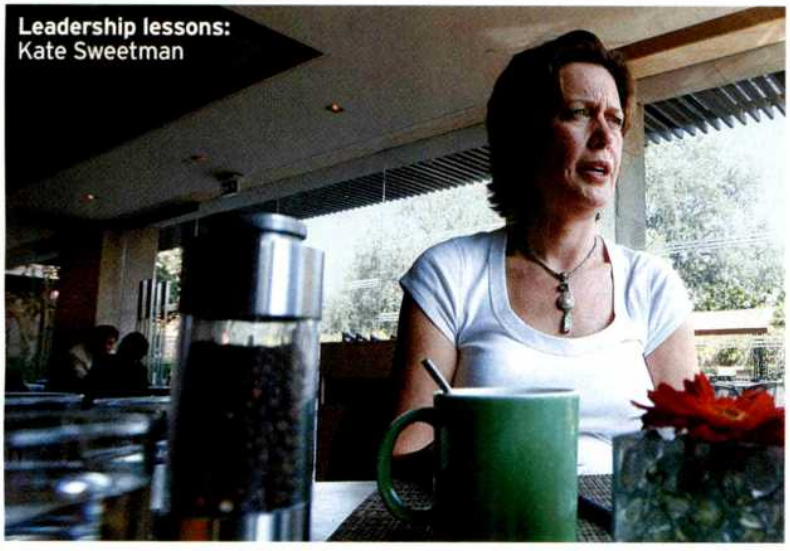
But don't imagine, just because Android provides open source software, that its tablets will be cheaper than iPads. Thanks to Apple's control of the supply chain and retail distribution, specification-for-specification, most Android tablets are a lot more expensive than comparable iPads, especially with first-generation iPads becoming $100 cheaper in the US. In India too, the price dropped by ₹3,000.

As Android tablets are mass-marketed later this year, their prices will fall. They will always, however, be like the standard Windows laptops: nothing to crow about. Crucially, Android needs more applications. Not mobile applications that are scaled up for tablets, but proper tablet applications. At present, developers seem to prefer Apple's iTunes store. There is an *Angry Birds* for Android phones, but nothing that replicates *Angry Birds* HD for the iPad on an Android tablet. If Android fails to develop more applications, 2011 could well become the Year of the iPad 2. ◆

CALCUTTA UNIVERSITY

Road Rules of Great Leaders

The authors find some order in the universe of leadership, says Somnath Dasgupta



Leadership lessons: Kate Sweetman

SHEKHAR GHOSH/www.indiatodayimages.com

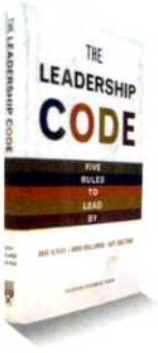
Leaders and leaderships, of corporations or countries, have come into much disrepute since the 2008 collapse of Lehman Brothers sparked a global financial crisis. Many leaders turned out to be avaricious people responsible for bringing down their companies, and they were followed by heartless leaders who eliminated thousands of jobs. Leaders of countries fared no better as they had to make tough cuts in government spending.

When *The Leadership Code: Five Rules to Lead By*, by Dave Ulrich, Norm Smallwood and Kate Sweetman, hit the stands in the West in 2009 it had a technical flaw. It turned out that the authors had finished writing the book just before Lehman collapsed and the leadership crisis snowballed.

Kate Sweetman, one of the authors, who was in India recently, says the five rules survived the acid test. As for the leaders in a hurry to make money, she says: "I think that what they were doing was kind of retracting in trying to make things work in the short term."

"We don't pretend to have come up with a new theory of leadership or something like that. What we were really trying to do was to get some order in the universe of leadership," Sweetman says. The subject is a "well-ploughed" field, but there is a lot of confusion around it.

Typically, in a very large company with many divisions, the leaders of the different businesses could be all teaching different stuff, she says. "That's because they sort of fall in love with emotional intelligence, or they fall in love with authentic leadership, or strategy stuff.... none of it is wrong," she says. But how does it really help you compete?



The Leadership Code: Five Rules to Lead By
By Dave Ulrich, Norm Smallwood, Kate Sweetman
Publisher: Harvard Business Press
Pages: 190
Price: ₹900

Does this code apply across cultures, for women and men? "Leadership does not have a gender, and it does not have a nationality. It does not have ethnicity. It is a person standing up and saying 'I want to do things differently'," she says.

It is just that no decision is made without an emotional component, and women have a larger emotional component, which is why differences are seen in the work place. But if you allow emotion into your thinking, you actually take better decisions, Sweetman says.

According to the authors, great leaders can be widely different in their styles and the way they do things. But, drawing on their collective research experience and interviews with all the thought leaders in their field, they concluded that all great leaders go by five rules.

Rule 1: Shape the future. Leaders should have the vision to build a future for their organisation.

Rule 2: Make things happen. Just the vision is useless: Leaders must also be able to execute today's plans.

Rule 3: Engage today's talent. Good leaders are good at communicating with their people and aligning the individual to the organisation.

Rule 4: Build the next generation. A good leader has to help people map their careers, find talent that can be developed for tomorrow's job, and encourage relationships.

Rule 5: Invest in yourself. A leader must "know himself", be able to tolerate stress, think clearly and rise above the details.

There is no ranking of the rules; they are in four quadrants with Rule 5 at the centre. ◆

If You Wish to be a Star...

Companies seek specific traits and attitudes in new hires. Do you have it in you?

Come summer and workplaces across India will be abuzz with the arrival of freshers hired from campuses — eager to prove themselves at their first workplaces. Organisations do look for specific traits and attitudes in their new hires. In a fiercely competitive talent market, understanding what will keep you a cut above the rest is vital.

Every year, automaker Maruti Suzuki hires 300 young engineers and managers. Only 10 per cent of them are put on the fast track and move ahead of the rest of the pack. What sets them apart from their peers who have similar qualifications? It is a set of traits that differentiates the star performers from the rest.

The first things a company looks for is a positive mindset and high adaptability. It also keeps a close tab on their learning graph and their ability to grasp new ideas and processes. In fact, for the first six months, the company does not evaluate freshers on the projects they work on. Maruti Suzuki identifies vital talent by examining each fresher's ability to build positive relations with co-workers in small projects. "This 10 per cent people will be very proactive in getting things done," says S.Y. Siddiqui, Managing Executive Officer, Maruti Suzuki.

Freshers should look beyond their key result areas to make their first mark in the firm. Companies say this trait separates merely good performers from those with high potential. The latter is what your organisation expects you to be. "It is simple. You may be performing well at a given task and that makes you a high performer. But those with high potential, can perform well in alien situations and even under stress," explains Siddiqui.

Leading executive search and HR consulting firm Korn/Ferry International says high performers do not always turn into high potentials. But 75 per cent of the time, high potentials are high performers too. Nina Chatrath, Principal, Leadership and Talent Consulting, Korn/Ferry International, advises freshers: "Ask yourself whether you are able to bring results in challenging situations. Can you simplify complexity and do you take more responsibility at your workplace?"

If the answer is yes, the fresher would do well to seek new opportunities at the workplace. Working at a faster pace and simultaneously maintaining quality of work will be a good strategy to begin with.

At many companies like SRF, the bosses attach a lot of importance to value alignment. "Our star performers are invariably positive in terms of new challenges and assignments," says Suresh Tripathi, President, Group HR at SRF. Being aligned to the organisation does not mean a new employee must agree with seniors all the time. Voicing disagreement is permitted. But how an employee disagrees is what makes a distinction between the star performers and the rest. "My star performers will disagree, but they will respect and appreciate the views of others," says Tripathi. Take note, star performers of the future. ◆

SANTOSH

TRAITS OF A STAR PERFORMER

1. Seeks new work opportunities in the organisation
2. Works faster than his/her peers
3. Is always ready to add value and contribute
4. Challenges the status quo, takes more responsibilities
5. Is organised – in thought process, and at work
6. Is upfront with all without being disrespectful

Happy Days Are Here Again

Salary hikes are likely to be hefty this year, thanks to a buoyant economy.

Riding on the back of a buoyant economy and stable business outlook, the Indian salaried class can expect substantial raises across sectors this year. A study by Aon Hewitt, a global HR consultancy firm, estimates salaries will increase by an average of 12.9 per cent in 2011, with double digit hikes (12-15 per cent) continuing for the next few years. At this rate, India will be giving the highest pay hikes in the Asia-Pacific region this year, superseding booming economies like China (nine per cent) and the Philippines (seven per cent).

The biggest pay hikes will go to employees in the engineering, automotive and energy sectors with increments of as much as 14 per cent, followed by infrastructure, FMCG, pharmaceuticals, banking and financial services and insurance, telecom and retail.

Even as the salaries will increase at all levels, junior managers or supervisory staff — employees with two to seven years of work experience — are expected to gain the most: 13.3 per cent on average.

The Hewitt findings, based on a survey of 531 organisations in 18 primary and 30 secondary industry sectors, says: "Traditionally, salary increases are directly linked to the level of economic activity and talent demand and supply. But this year, rising inflation is also playing a significant role in determining salary increases."

According to the report, the positive growth estimate is due to a sustained increase in domestic consumption, investment in infrastructure, continued momentum in services and efforts towards fiscal consolidation. Relaxed foreign direct investment, or FDI, norms, increasing public-private partnerships, and state investments and stimulus to the energy and infrastructure sectors have also added to the robust outlook.

However, the booming IT and ITes sectors that have backed India as the global business destination are still cautious being largely dependent on developed markets like the US and Europe for their business. The economic recovery in the West remains fragile.

"Salaries in the IT sector are already high compared to other sectors. Salary hike is purely a function of affordability. The billing rates (of IT companies) have been stagnant for the last few quarters. Unless the rates go up and revenue productivity improves, there will be pressure on controlling costs," says Nandita Gurjar, Senior Vice President, Infosys Technologies. "But that, however, does not mean that the industry will become less competitive."

The auto sector, which has seen healthy growth with an increase in demand for vehicles over the last two quarters, is also positive but cautious. "The increments this year are going to be in the range of 12 to 14 per cent. While companies in the sector are experiencing robust growth right now, there is caution due to the political unrest in West Asia, which has caused turmoil in the oil sector," says S.Y. Siddiqui, managing executive officer (HR), Maruti Suzuki. ◆

MANU KAUSHIK

Salaries in IT are already high. Unless revenue productivity improves, there will be pressure

Nandita Gurjar, Infosys Technologies

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Principal Service Engineer
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Capgemini
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Location: Mumbai
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Description: The person will be part of a l performing labs and consulting team Capgemini Consulting India and would fc on projects related to Marketing, Sales Services Strategy.

C S Diesel Engineering Pvt Ltd
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Vmware Software India Private Ltd
Market Research - Manager
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Globarena Technologies Private Limited
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Location: Bhubaneshwar
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Aakit Technologies
Sales Manager- SAP Solutions
Location: Mumbai
Job ID: 9347487
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India Mart
Marketing Executive
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Senior Mgr / Mgr – Revenue Assurance
Location: Chennai
Job ID: 9410484
Description: Role of Revenue Assurance (RA) is to verify the end-to-end operational process completeness, accuracy, and data integrity of the capture, recording, billing and reporting of all revenue-producing events or transactions from sales and marketing through.

Acculogix Software Solutions Private Limited
Financial/ Business Analyst
Location: Bangalore
Job ID: 9406785
Description: Duties: Handle end to end R2R process; Monitoring & Review Journal Entries; Finalization & closing books of Accounts; Intercompany Reconciliation, Balance Sheet reconciliation.

Moolchand Medcity
Junior Assistant Manager - Accounts
Location: Delhi
Job ID: 8888258
Description: Task: Reconciliation of books of accounts & related activities; Preparation of financial statements like independent costing of balance sheet, profit & loss A/C; Bill & Payment verifications.

Sapient
Manager - TRM Process Solutions (Internal Audit)
Location: Bangalore
Job ID: 9250988
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Virtusa Software Services Pvt Ltd
Internal Audit Manager - India
Location: Hyderabad
Job ID: 9367487
Description: Aspirant must have 6+ years professional experience, including 4+ years in audit; Bachelor's degree in Accounting or similar discipline; CA/MBA preferred.

United Online Software Development (India) Private Limited
Associate/ Sr. Associate Finance
Location: Hyderabad
Job ID: 8780131
Description: The person needs to be a CA with 1-3 years experience (article ship experience should not be considered as work experience).

NET FLOW Technologies Pvt Ltd
Accounts
Location: Bangalore
Job ID: 8937345
Description: Applicant should have strong accounting background up till finalization; have knowledge of advance tax, service tax, TDS calculation, taxation, Tally 9.

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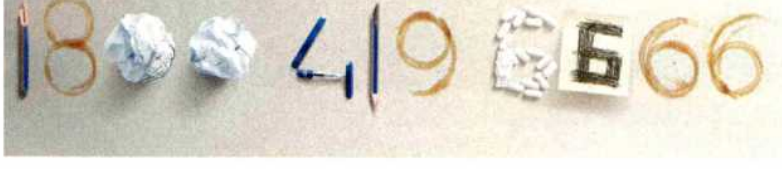

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Stained

RAJAT GUPTA, 62, was one of the first Indians to break the race barrier at a global consultancy firm when he was appointed Managing Director of McKinsey & Company in 1997. He has been feted by the Indian media for years, including BT, which, in 2007, quoted Nobel-laureate Amartya Sen saying: "My admiration for Rajat arises from his great ability to provide social leadership in making much needed changes in India." Apart from his 34-year-long career at McKinsey, from which he retired in 2007, Gupta's social leadership role involved setting up the Indian School of Business, Hyderabad, and the Public Health Foundation of India. But now this alumnus of Delhi's prestigious Modern School and Indian Institute of Technology — as well as Harvard Business School — finds himself in a bind, his reputation being dragged through mud. The Securities and Exchange Commission, or SEC, of the United States recently charged him with passing on insider information on Goldman Sachs and Procter & Gamble, on whose boards he served, to disgraced hedge fund trader Raj Rajaratnam. Gupta, now an accused in the Rajaratnam case in the US, has denied all charges. But he has also already quit several boards he served on, including Procter & Gamble. And while industrialists like Anand Mahindra have vigorously defended him on Twitter, Gupta certainly faces tough times ahead. At the time of going to press, Gupta was yet to resign from any Indian boards and his trial was yet to start, though Rajaratnam's hearing had started.

KUSHAN MITRA

Rajat K. Gupta
Former MD, McKinsey & Company

SATISH KAUSHIK/www.indiatodayimages.com

Ellana Lee
Managing Editor, CNN Asia-Pacific

Showcasing India

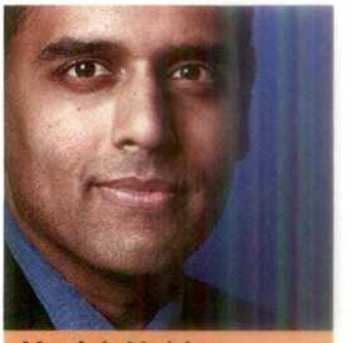
Seven years ago, she started the *Eye on...* series about different countries on CNN International. India was the first nation to feature in it. And now **ELLANA LEE** is returning to India for another *Eye on...* project. The last time she was shooting for *Eye on...* in Mumbai, work was interrupted by the November 2008 terror attack. "Many of us were staying at the Taj (hotel) that time and we felt like we had unfinished business left. So we decided to do this series in Mumbai as well." Choosing the subjects was a challenge, says Lee, whose favourite India stories have a small-town flavour. One of the best such stories CNN did, she says, was about rural Indians working together to repair potholes in the road.

ANIKA GUPTA

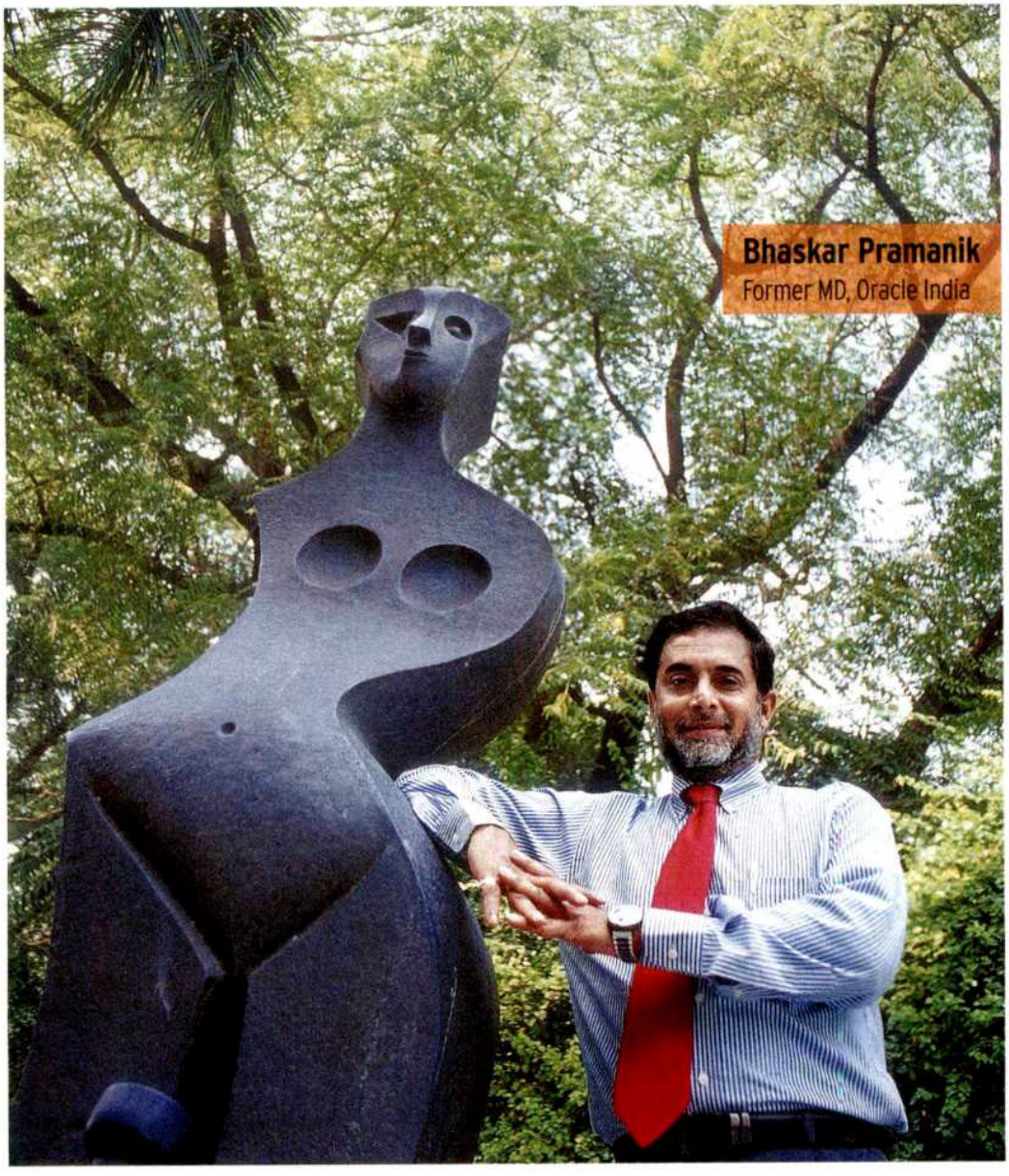
Social Networker

From nuclear scientist to software engineer and now the Vice President of Social Media at Dell, **MANISH MEHTA** has had an interesting life. When he joined the world's second-largest computer manufacturer 15 years ago, it had $2 billion in revenues and 3,500 employees. Today, revenues stand at $61.5 billion and the company has 105,000 employees. Mehta also played a major role in developing its website. "When we set up dell.com, we assumed it was the centre of our customers' universe," admits Mehta. "Now we want to reach out to where they are." Meanwhile, Dell earned an estimated $3 million from its Twitter activity alone, though Mehta feels the number could be higher.

RAHUL SACHITANAND



Manish Mehta
VP, Social Media, Dell



VIVAN MEHRAS/www.indiatodayimages.com

Moving Out

He caused a flutter when he was appointed Managing Director of Oracle India a year ago after the software giant's global takeover of Sun Microsystems. The head of the smaller company in a merger being made chief of a unit of the merged entity is rare. **BHASKAR PRAMANIK**'s appointment was a testament to his sales skills, extensive contacts and willingness to still go out into the field and meet customers. Despite these strengths, his stint with Oracle has lasted all of 12 months. According to the industry grapevine, Oracle, which earns up to $2 billion from its India operations, wants to push its core software business harder, rather than the hardware business it got when it acquired Sun. It was this strategy shift that prompted a change at the top. His departure, however, may provide Pramanik, also a bridge-player and hobby photographer, only a short break. There are whispers that he could next helm Microsoft's India ops.

RAHUL SACHITANAND

Cheers!

PATRICK RICARD, alcohol magnate, was in India to celebrate the success of a local whiskey brand, Royal Stag. But ask him what his favourite drink is, he answers: "... Ricard, of course". He is referring to the eponymous aniseed liqueur created by his father, which gave birth to what is today the world's second-largest distilled alcohol company, Pernod Ricard. "I particularly like Irish whiskey," adds the chairman of the €7 billion French multinational. The 65-year-old says one welcome perk of his job is the right to drink at some of the best and most exclusive bars across the world. "I recently drank at the bar on top of the Burj Khalifa in Dubai. That is the highest bar in the highest building. Believe me, it was not the drink that got me high," he jokes.

KUSHAN MITRA

Patrick Ricard
Chairman, Pernod Ricard

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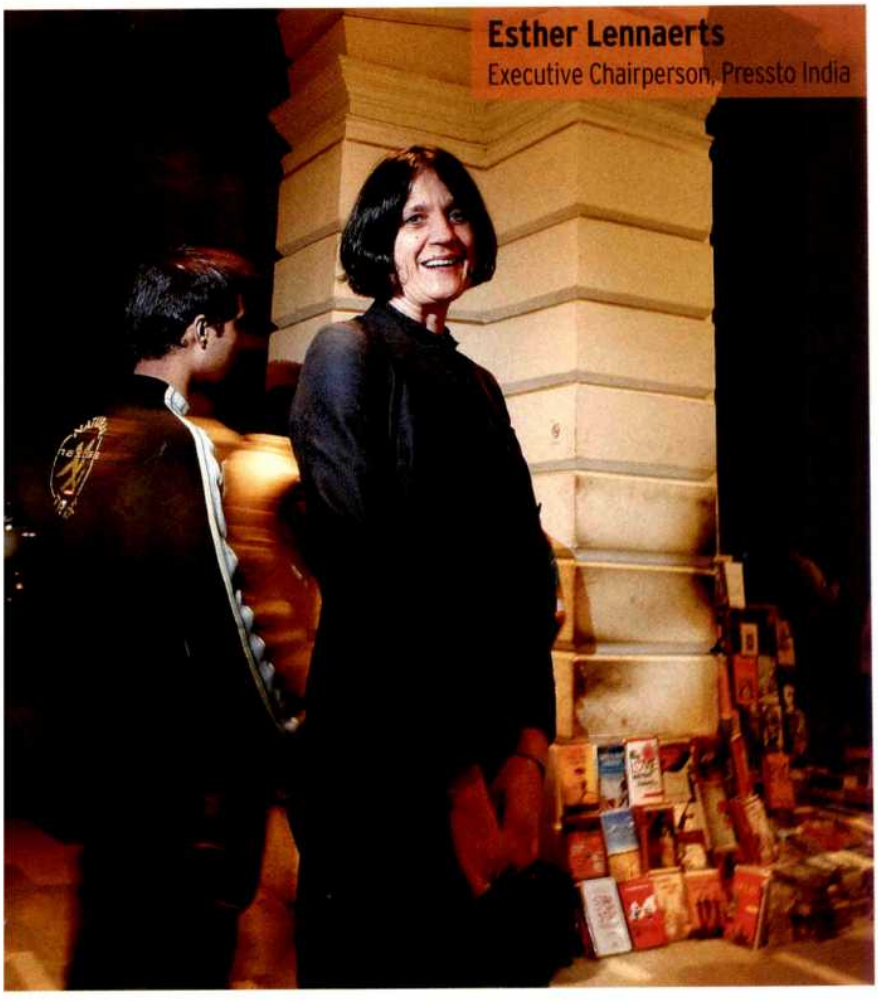

Esther Lennaerts
Executive Chairperson, Pressto India

SHEKHAR GHOSH/www.indiatodayimages.com

Pressing Away

She describes her company Pressto as the McDonald's of dry-cleaning and wants it to capture a sizeable slice of the ₹5,200 crore dry- cleaning and laundry market in India. Her illustrious clients' list includes Mukesh Ambani, Amitabh Bachchan, Anil Kapoor, Gopinath Munde and Rani Mukherjee. "Having worked in India, I know that there are not many players here who can offer services that match the level of satisfaction customers want," says Dutchwoman **ESTHER LENNAERTS**. In just over 20 months, Pressto India has moved from a single outlet in Mumbai to 14 stores in Delhi and Mumbai, clocking ₹9 crore in revenues. But Lennaerts wants to expand to 50 stores and clock over ₹100 crore in revenues by 2012/13. There is a lot of money in dirty linen. ◆

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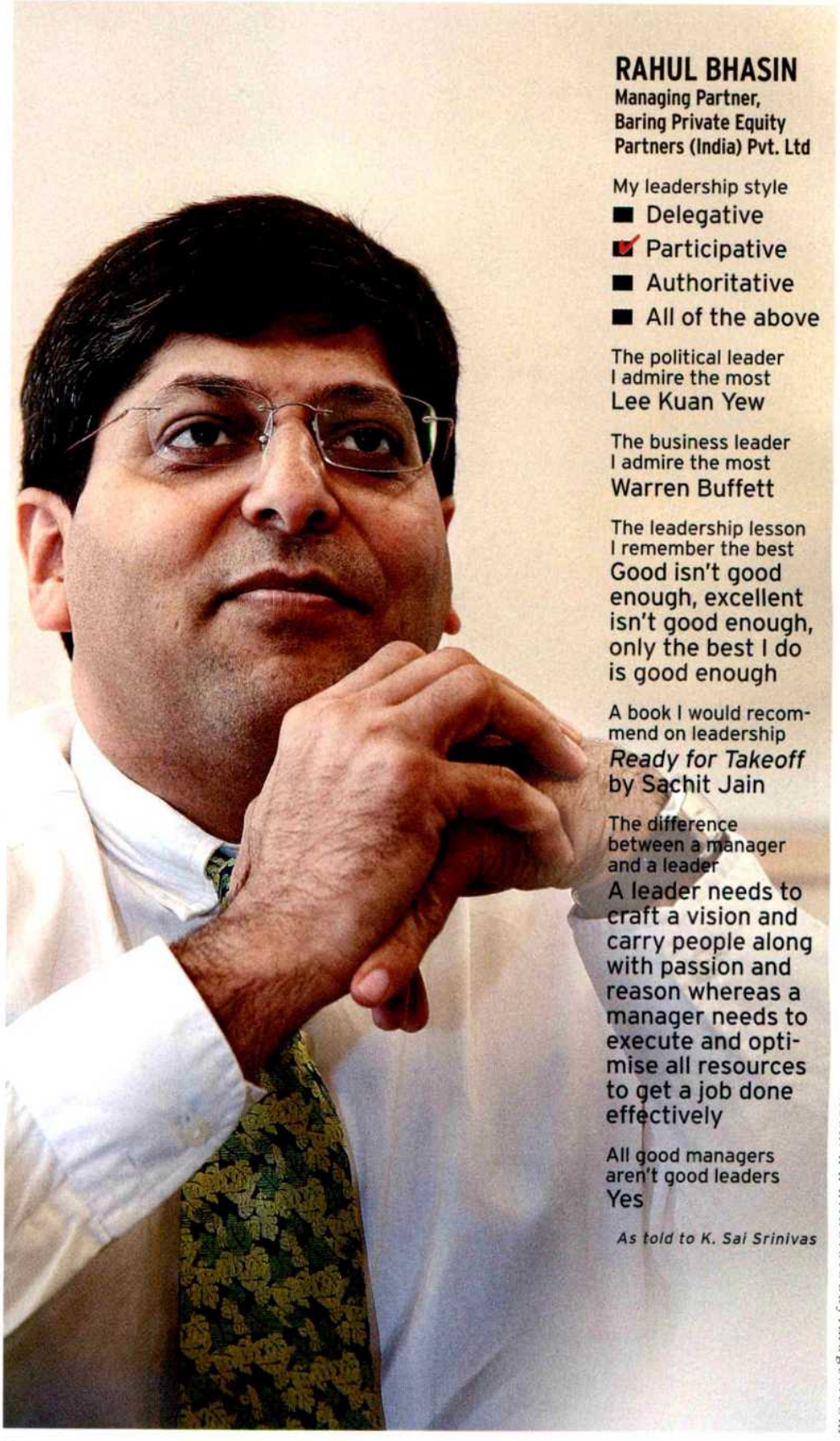

RAHUL BHASIN

Managing Partner, Baring Private Equity Partners (India) Pvt. Ltd

My leadership style

- Delegative
- ✔ Participative
- Authoritative
- All of the above

The political leader I admire the most
Lee Kuan Yew

The business leader I admire the most
Warren Buffett

The leadership lesson I remember the best
Good isn't good enough, excellent isn't good enough, only the best I do is good enough

A book I would recommend on leadership
Ready for Takeoff by Sachit Jain

The difference between a manager and a leader
A leader needs to craft a vision and carry people along with passion and reason whereas a manager needs to execute and optimise all resources to get a job done effectively

All good managers aren't good leaders
Yes

As told to K. Sai Srinivas

SHEKHAR GHOSH/www.indiatodayimages.com

Vol. 20, No. 7, for the fortnight March 21 to April 3, 2011. Released on March 21, 2011.

When obsession for detail is a habit, it shows

Every ColorPlus garment is crafted with passion to ensure that even minor details are taken care of.
The featured shirt has an exquisite checked pattern of 60s and 2/80s cotton with a unique ribbed structure. Back collar, with yoke, side seams and centre placket have been matched to create a balanced look. Details like pocket serging, button shanking and wrapping make this shirt a masterpiece worthy of you!

ColorPlus

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Opportunity doesn't always arrive gift wrapped.

Some thoughts on unlocking potential in today's environment: 1. Innovation is essential, especially if it's disciplined and focused on business outcomes; 2. Out-thinking the competition is useless unless you can out-execute them as well; and 3. This is no time for trial and error; winners get it right the first time. Talk to us to see how we can help you turn potential into tangible performance.

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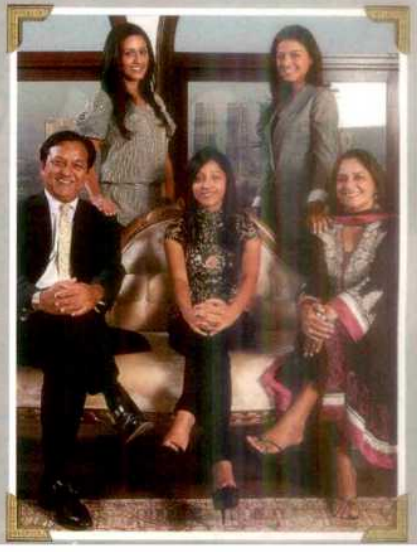

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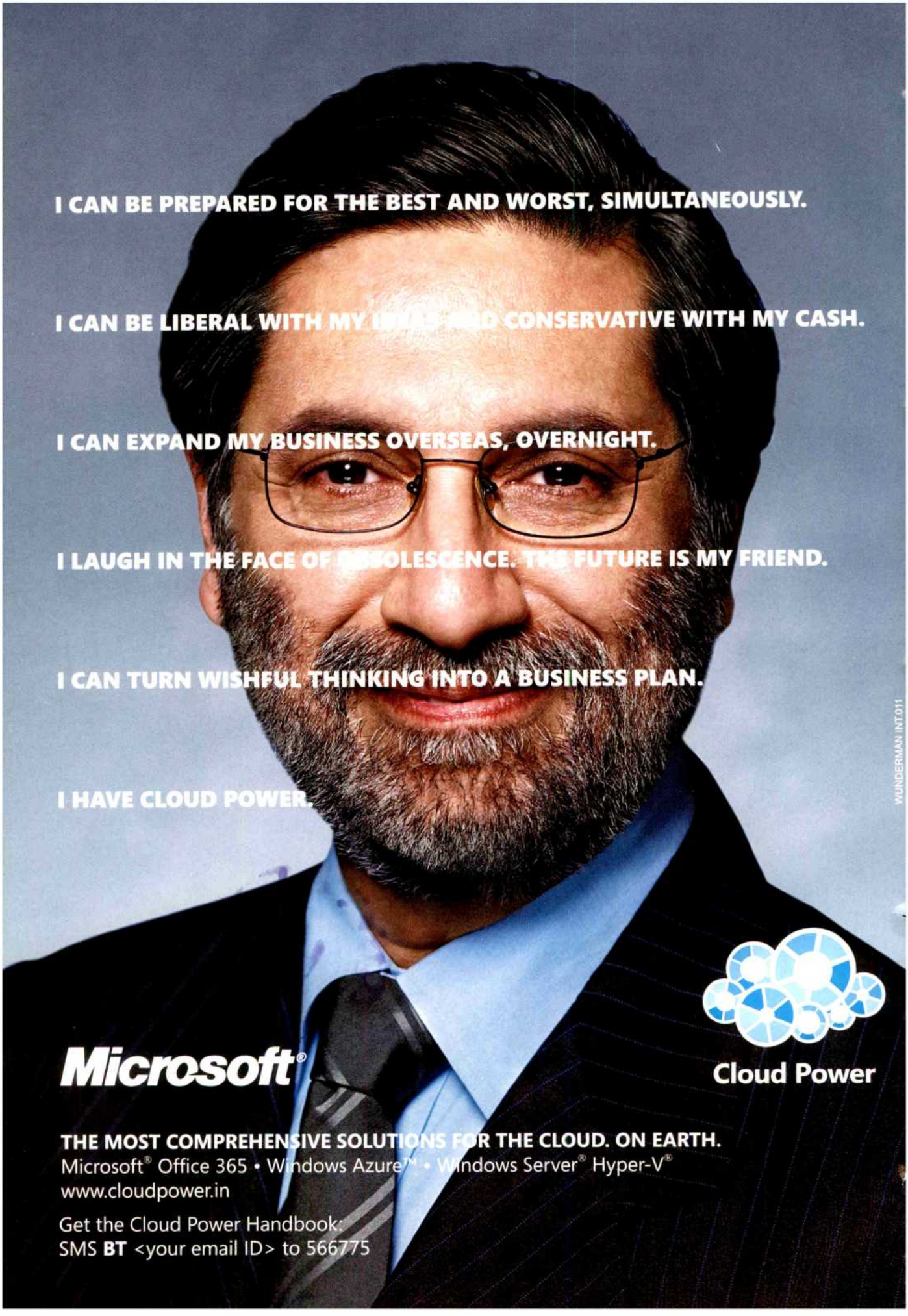
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From the Editor

"If a thousand suns were to rise in the heavens at the same time, the blaze of their light would resemble a little the supreme splendour of the Lord .... I am time, the destroyer of all; I have come to consume the world."

The Bhagavad Gita, Ch. 11-12 & 32

Julius Robert Oppenheimer thought of these lines as he watched the first atomic bomb explode at Los Alamos on July 16, 1945. Three weeks after Los Alamos, Hiroshima and Nagasaki were visited by epic death and destruction. And in a chilling reminder, two weeks after the March 11 killer earthquake and tsunami hit Japan, nuclear safety officials said workers trying to cool crippled reactors at the Fukushima complex were exposed to 10,000 times safe levels of radiation. A worldwide debate is raging about the risks of nuclear power. Even if the Indian government's audacious plan for a necklace of reactors takes shape, we will derive only five per cent of our energy needs from nuclear plants by 2050.

Fukushima and Jaitapur are a continent apart, but have been indelibly etched in our minds. Read our view of the fallout on both energy strategy and Japan-India business from page 44, and Bharat Karnad's clinical analysis on page 50. "Risk management should try to reduce the impact of the threats we don't understand," says the *Harvard Business Review* piece reproduced on page 120. The authors say incentives encourage managers to hide risk and "we shouldn't offer bonuses to those who manage risky establishments such as nuclear plants and banks". Fukushima's owners systematically downplayed risks. So did the heads of the banks that caused the 2008 crash.

Risk is inherent in entrepreneurship. India is all about family values. How better to head into the clear-air turbulence of business than with your family in support? In the 20 years since the shackles on the economy began to snap, several families have vaulted into the corporate hall of fame to rub shoulders with "old money" names like the Tatas, Birlas and Murugappas.

Thirteen years ago when *BT* published an iconic study of the top business families the central question was, how many of them would survive? We could have asked: who will elbow them aside? We sought the answers in the first of a set of special issues this year to mark *Business Today*'s own milestone — we will be 20 years old in January 2012. Months of patient pursuit and persuasion by a team led by Senior Editor Anand Adhikari yielded the inspiring stories of the "boom babies" starting on page 60.

No family controls one of the trailblazers of the new economy, Infosys, and this makes success and succession a complex interplay of strategy, vision and boldness — or a shortage of it. Associate Editor Rahul Sachitanand snuck around the corridors of the company to ferret out the fable of how founding fathers fare in their bequests to ambitious and impatient heirs.

BT writers are a restless lot. They gatecrashed the *India Today* Conclave and plundered a rich set of conversations. Separately, two of them — Managing Editor Josey Puliyenthuruthel and Principal Correspondent Sunny Sen — pinned Larsen & Toubro Chairman A.M. Naik to a wall of tough questions on why he is splitting the engineering giant into nine entities. And Associate Editor Shamni Pande sat News Corp's James Murdoch down for a sweeping review of that media group's ambitions in India.

Chaitanya Kalbag

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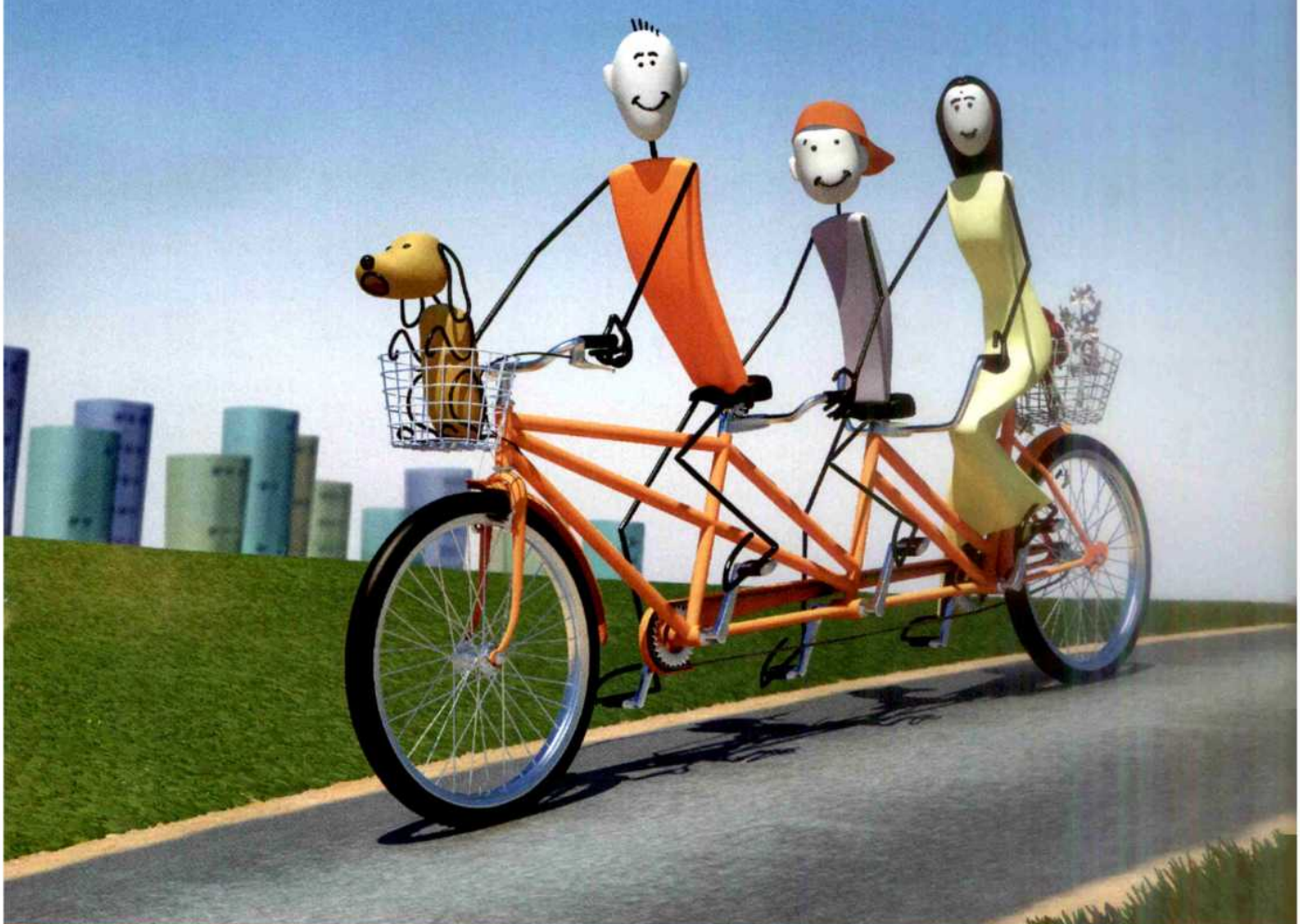

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Skilling Fields

Your cover story *Making 500 Million People Employable* (April 3) has accurately highlighted the various aspects of the compelling responsibility of shaping the skill dimensions of Indians. The task of making a majority of individuals employable has to be continuously retooled, restyled and updated with changing strategies to suit the vast sea of business requirements. A strong vocational focus in education can certainly help the rapid expansion of the economy. The Right to Education Act constitutes the basis for literacy and enables children to advance, depending on their interests and the demands of the job market. The Act's effectiveness, though, has yet to be felt.

B. Rajasekaran, *Bangalore*

Pedal Pushers

It is no doubt sheer joy to discover one's city on a bicycle (*Pedalling for Pleasure*, April 3). Cycling is a good aerobic fitness exercise, too. But sadly, heavy road traffic makes cycling dangerous. I wonder when these operators, who organise bicycle tours, take people out cycling. In any of our metros, it can only be very early in the morning. Even in the mornings, roads are not entirely safe, since the few motorists who venture out, finding the roads empty, drive at dangerous speeds. One aspect your story did not cover was whether the tour operators take any precautions on behalf of the cyclists. How liable are they in case of an accident? Have there been accidents?

Reema Khanna, *Kolkata*

"The task of making a majority of individuals employable has to be continuously retooled, restyled and updated with changing strategies to suit the vast sea of business requirements"

Budget Blues

Your cover package on the budget (March 20), including the photofeature, was more attractive than the budget itself. Budget 2011 did not respond to the aspirations of the *aam aadmi*. The increased rates of air travel, service tax at hotels and private hospitals will surely pinch the rich and the higher middle class. There has been no significant increase in the allocation for the social sector. And though there is a marginal increase in the income tax exemption limit, the benefit has not been passed on to women. The biggest joke is the tax exemption limit of ₹5 lakh for the so-called Super Senior Citizen Category — or those above 80 years of age.

Bidyut Kumar Chatterjee, *Faridabad*

LAST BUT NOT LEAST

Pedalling for Pleasure

www.businesstoday.in@coverstory: *Making 500 Million Employable* (April 3) joins the dots on India's skilling revolution.

www.businesstoday.in@coverstory: *Pranab, the Clever* (March 20) is an analysis of the Union Budget and how will it affect India's growth story.

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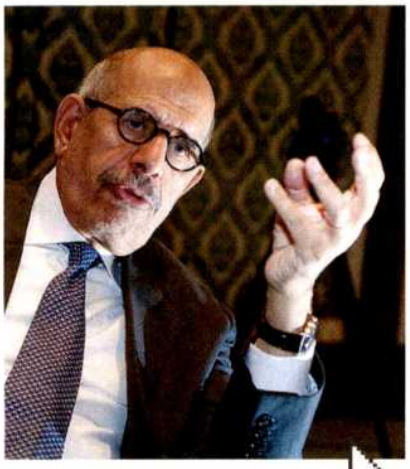

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Listen to Chairman A.M. Naik open up to *BT* about the engineering giant's succession woes.

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Japan Fallout

Read an interview with nuclear safety parts supplier Schott on what Japan's crisis might mean for industry.

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No Free Lunches

The populist agenda of Tamil Nadu's DMK government — from subsidised health insurance and food items — has driven down the availability and efficiency of labour in the state.

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Blogs

E. Kumar Sharma
On safety breaches at Dr. Reddy's Labs and Rajat Gupta's exit from ISB

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Skilled Set

India will add 200 million people to its workforce over the next two decades, but many of them are unprepared for the modern workplace. *BT* traces the mix of private and public groups trying to turn India's labour force into the most skilled in the world.

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Living on the Brink

Real estate major Unitech has seen its stock price soar and then drop, as the company faced first the credit crunch and then the 2G scandal. *BT* analyses how the company still hopes to come out on top.

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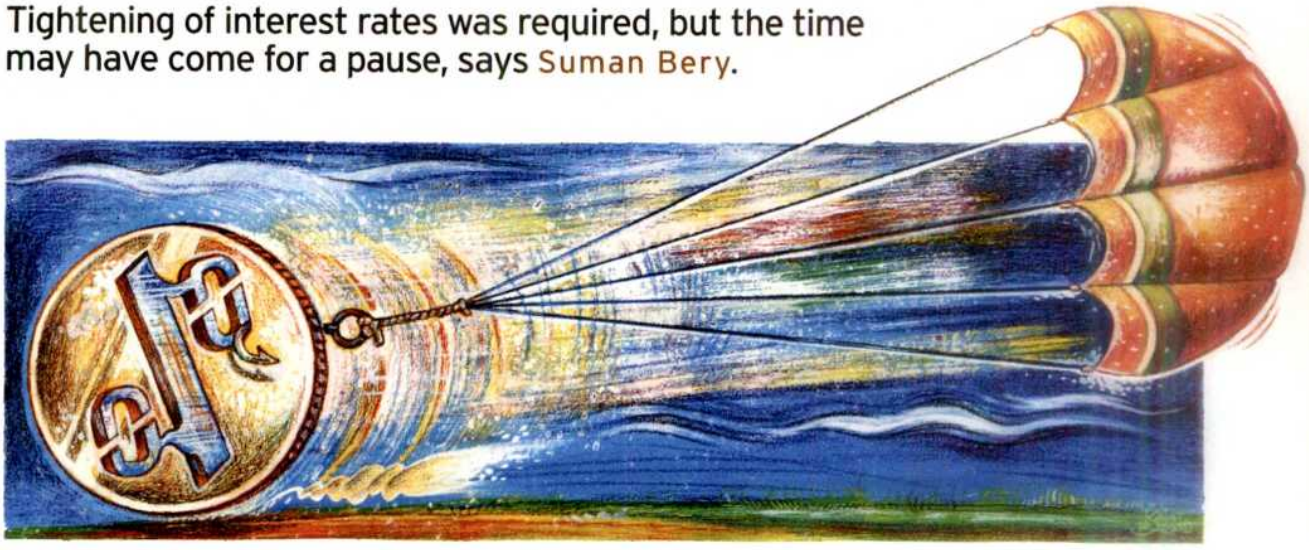
What RBI Should Do Next

Tightening of interest rates was required, but the time may have come for a pause, says Suman Bery.



RAJAT BARAN

Earlier this month I participated in an international conference — *Macro and Growth Policies in the Wake of the Crisis* — at the International Monetary Fund, or IMF, headquarters in Washington. It was organised by Olivier Blanchard, the institution's Chief Economist and Head of Research Department, along with three other leading economists, Michael Spence, Joseph Stiglitz and Paul Romer. Stiglitz is well known for his sharp criticism of the policies of the IMF in earlier crises.

The goal of the conference was to assemble a range of opinion on key issues facing the global economy. The conference examined what the crisis had meant for the theory and practice of monetary policy in the advanced and emerging markets. Blanchard felt the crisis had revealed significant shortcomings in the existing strategy to fight inflation. Otmar Issing, former Chief Economist of the European Central Bank, argued that the problem was not with the theory of inflation targeting, but rather with its implementation and application.

There seems to be some intellectual disorder at the highest levels of the global economic policy establishment on monetary policy and inflation. Then, how should we assess the Reserve Bank's monetary policy actions of March 17, when it raised

6.75%
The repo rate after the recent tightening by the central bank

both the repo and reverse repo rates by 25 basis points to 6.75 per cent and 5.75 per cent, respectively?

Let me start with risk management. It is now clear that the impact on India of the global crisis of 2008/09 was initially severe but was quickly contained. This outcome was not preordained, and was the result of sound policy, combined with a certain amount of luck. The policy actions were both monetary and fiscal, and had two important purposes: using government consumption to compensate for a slump in private investment, and flooding the markets with liquidity to deal with the sudden interruption of overseas finance, reversing the cycle of tightening that had continued until July that year.

These outcomes occurred because the government was nimble and had guts, also because the Central government and the RBI had created the required "policy space" to loosen policy. This is most obvious in the case of RBI, because of the aggressive tightening under Governor Reddy, but the same was also true for fiscal policy, although the fiscal consolidation of the Chidambaram years was less than ideal. This successful implementation of counter-cyclical macro policy in India took place — and in the middle of an uncertain general election — without the support of swap lines from the Federal Reserve in US that other Asian economies needed.

Partially influenced by the debt crises that erupted in Europe in late 2009, and under the guidance of the 13th Finance Commission, the government wanted to begin fiscal consolidation in last year's budget. Concurrently, the RBI initiated tightening steps with a series of moves. The RBI's key short-term rate, its repo rate, has risen from 4.75 per cent to 6.75 per cent between January 2010 and its most recent move this month.

Seen from the perspective of policy space and flexibility, the RBI has been right to initiate and continue tightening. The question now is where and when this cycle should end. The qualitative answer is easy: it should end tightening when its internal forecasts suggest that the medium-term real interest rate is consistent with the cyclical position of the economy, taking into account the fact that monetary policy acts with a lag of 12 months.

This is easy to say, but hard to do, since it requires the RBI to take a view on domestic growth, domestic inflation and the global economy at least within a year. Of these, inflation due to events occurring outside the country is the most difficult call, given the uncertainty surrounding oil and other commodity prices. A second uncertainty is the domestic political, regulatory and investment climate, and its influence on domestic investment. A third judgment call is the outlook for capital inflows, given our balance of payments financing needs and the recovery in sentiment in the advanced countries.

In my view, the RBI should plan on nominal GDP growth of 14-15 per cent with real growth of 8.5-9 per cent. Current monetary policy seems to be neutral for these levels, as measured by real rates offered to depositors. Given the uncertainties in the global economy, the RBI needs to preserve policy space on both the upside and the downside. Despite the hawkish tone of its recent circular, I would expect, and welcome, a policy pause at this time.

The author is a former Director General of the National Council of Applied Economic Research

BERY'S TAKE

- The RBI has done right to initiate and continue tightening
- Tightening should end when the medium-term real interest rate is consistent with the cyclical position of the economy
- The RBI has to take a view on domestic growth, domestic inflation and the global economy within a year
- The RBI should plan on nominal GDP growth of 14-15% in this financials year, with real growth of 8.5-9%
- A policy pause at this time is expected and will be welcome

WORDSMITH
(NEW WORDS IN BUSINESS)

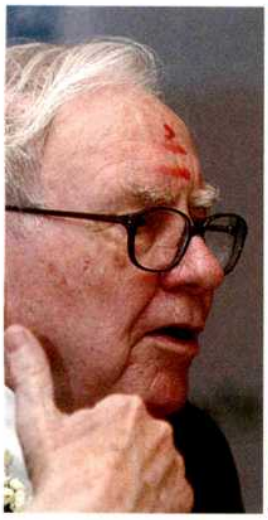
Jawboning

Jaw-boning

What it means: The use of public appeals to influence actions, especially relating to business.

Origin: 'Jawboning' was famously used in the US in the 1960s with reference to the lobbying strategies of Presidents Lyndon Johnson and Richard Nixon. It has now become popular in business.

Usage: Jawboning alone can save the company from losing the labour committee's support.



Gates-Buffett Primer for Giving

Gleaned from public interactions of Warren Buffett and Bill and Melinda Gates in India. By KUSHAN MITRA

A child who gets a vaccine does not ask where the money for the vaccine is coming from

There are no rules of success in philanthropy; in fact, there should be failures, which make the successes more important

The reason we would like the money donated to be spent quickly is because we would like to know and trust the people who head the foundations that utilise it

The biggest breakthroughs will come in bringing the advantages of digitisation to the poor to transform their lives

Donating our personal wealth is not the same as donating company wealth. Our companies will carry on doing what they are doing and our actions are independent of that

The biggest thing about philantrophy is the amount of time you need to give it, which is far more important than the money

It takes a leader to run a nation.

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Smart New Trading Tool

A newly-introduced software provides instant information on the price of shares across bourses. By RAHUL OBEROI

Most investors would want to trade on both the major bourses simultaneously, the Bombay Stock Exchange, or BSE, and the National Stock Exchange, or NSE, to get the best possible price while buying or selling. But tracking both exchanges at the same time, before giving a buy or sell order, could only be done if brokers made the effort. Now, both exchanges have introduced a technology called smart order routing, or SOR, which allows the investor to do just that without brokers playing any role. Credit Suisse became the first broker to execute trades using SOR technology on the BSE and NSE recently.

How it works

If a share is traded on both exchanges, the buyer or seller checks the rate and quantity available on each exchange and then places his order. Earlier, all of it had to be done manually by brokers. From now on, the entire process of finding the best price available and then executing the order will be carried out by a computerised system.

Nalin Pant, Vice President at Elara Capital, says: "The SOR system constantly receives market data from the exchanges. It compares the market conditions at both exchanges, and based on prices, costs and liquidity, automatically forwards a particular order to the exchange where the best execution is likely to happen."

Its advantages...

The technology will help investors trade in the less liquid stocks, where the price differential can often be as high as 0.5 to 1.0 per cent between exchanges, by seamlessly finding the best price possible for their orders. Avinash Gupta, Vice President at Bonanza Portfolio, says: "Manually this process is tedious and time-consuming and may not be a feasible proposition in the dynamic markets that we have. It will mean the optimum execution of trade for brokers as well as investors."

RAJAT BARAN

SOR could radically alter market dynamics, believe experts, with large traders and arbitrageurs expected to use it in a big way. Currently, only some brokerages offer SOR but it is expected that most will begin offering it over the next few months.

The cost of implementing an SOR system is not very high for brokers. This allows them to offer the service free to investors. The hardware cost is about ₹3 lakh to ₹4 lakh, while the software cost comes for ₹8,000 to ₹10,000 for a terminal each month.

... And its limitations

SOR will be used mostly by high net worth clients, or HNIs, foreign institutional investors and domestic institutional investors. Day traders and futures and options, or F&O, investors may stay away. Says Vinay Agrawal, Executive Director at Angel Broking: "The system will not be useful for intra-day and F&O trades as it will route orders to two or more exchanges for the best price."

Then, the broker offering SOR will have to take membership of both the exchanges. Initially, only the big brokers will be able to offer the service.

Courtesy: *Money Today*

NUMBERS OF NOTE

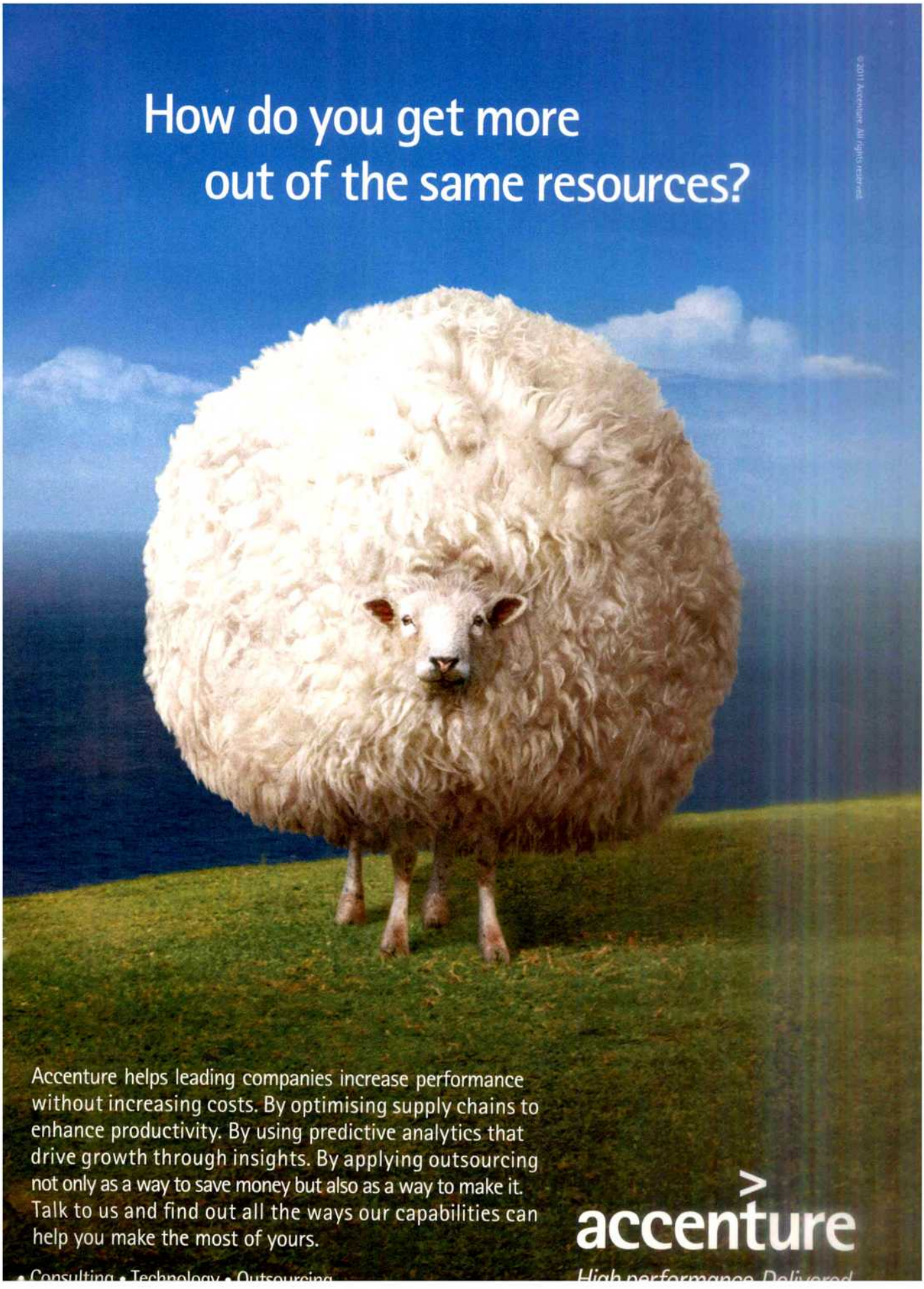
$71.7 BN
The revenues of the Indian IT-BPO industry by the end of 2011, accounting for 5.8 per cent of the country's GDP.

$360 BN
The size of the Indian radio industry by end-2014.

$253 MN
The size of the Indian animation industry by 2013.

14 PER CENT
The projected growth of TV advertising in India in 2011-12.

Source: Deloitte TMT Prediction report 2011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Ri

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Mahindra
Rise.

Introducing the iPad2 and a water-resistant device from Motorola's stable.

Thinner, Faster iPad

The iPad2 is not yet available in India, and is not expected to be here even during the second phase of Apple's product roll-out in late April. This, of course, bolsters the argument of those who believe Apple treats India as a "second-class market". There is already a buzz about the product in the United States with people queuing up outside Apple stores to buy one. Here's a sneak preview.

The iPad2 is a lot thinner and lighter than the previous avatar. The addition of cameras is the big plus, even though making video-calls on Apple's Facetime technology is only possible over Wi-Fi. The real advantage of the newer processor is faster load times, both of applications and of webpages. But in terms of pure hardware, at best the iPad2 remains at par with current competitors.

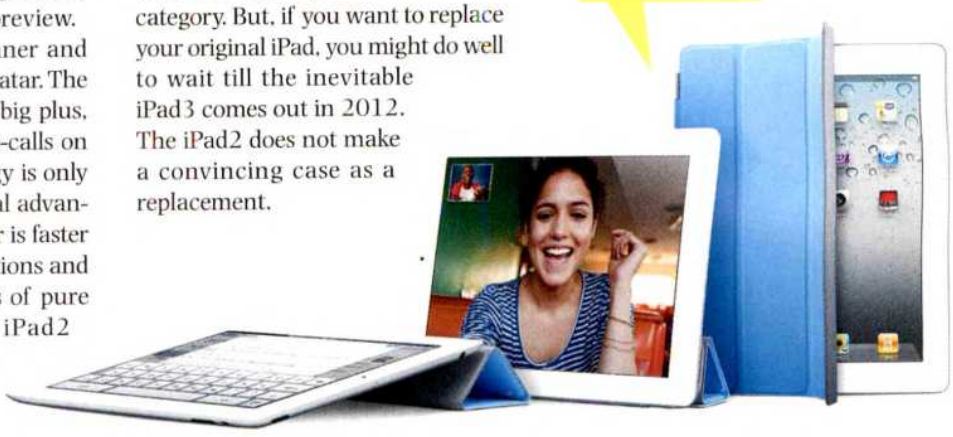
The performance specifications of all the devices are at par with Netbooks. In fact, the better specifications of this second-generation tablet may decimate the low-end laptop market. Again, as usual, with the iTunes AppStore, Apple scores over the competition.

The iPad2 is the best tablet in the market to buy, if you are new to the category. But, if you want to replace your original iPad, you might do well to wait till the inevitable iPad3 comes out in 2012. The iPad2 does not make a convincing case as a replacement.

- ⊕ The best tablet on the market, has cameras onboard
- ⊖ Will not appeal to the replacement market

Price: Starts at $499

Apple iPad2



Motorola Defy

- ⊕ Water-resistant, decent processor
- ⊖ Runs old version of Android, ordinary looks

Price: ₹18,500

Unspectacular

The Motorola Defy is actually quite ordinary as a device. By all accounts, it is just another Android device on a growing shelf of Android devices. It has a 800 megahertz processor that gives it speed. For some reason, Motorola insists on using the older version 2.1 of Android. But it has a party piece and the fact that it is water-resistant is a useful asset.

But is that, by itself, a selling point? Well, India does have a wet monsoon and thousands of phones die during each monsoon.

We would prefer a sleeker-looking device than the Defy.

COMPILED BY KUSHAN MITRA

SOBHA

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Artist's impression

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BT-ERNST & YOUNG

Deal Watch

BIGGEST DEALS IN THE PAST 30 DAYS*

Mukesh Ambani
Chairman, RIL

UK-based BP Plc has snapped up a 30 per cent stake in 23 oil and gas production contracts operated by Reliance Industries Ltd, or RIL, for ₹32,389 crore ($7.2 billion). The acquisition, subject to regulatory approvals, also entitles RIL to receive future performance payments of up to ₹8,097 crore ($1.8 billion), depending on the success of exploration activities.

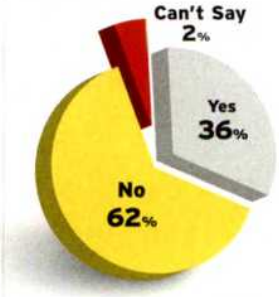
The deal will give BP access to RIL's capabilities in upstream exploration and production. This is part of BP's game plan of securing significant presence in major hydrocarbon basins. RIL will gain access to BP's expertise in deepwater exploration and site development and will enable it to increase its natural gas production through a higher output rate.

TARGET	ACQUIRER	INDUSTRY	TYPE	DEAL VALUE (₹ CR)	STAKE (%)
RIL–23 Oil & Gas Blocks	BP	Oil and gas	Investment	**32,389**	30
Shell UK–Stanlow Refinery	Essar Oil (UK)	Oil and gas	Acquisition	**1,587**	100
Peepul Tree Properties	Tata realty and Infrastructure, Tata Realty Initiatives Fund 1	Real estate	Acquisition	**525**	100
Manipal Universal Learning	Catamaran Venture Fund	Education	Private equity	**200**	NA
The Lanka Hospitals Corp	Fortis Global Healthcare Holdings	Health care	Investment	**162**	29
Adam Road Hospital	Fortis Global Healthcare Holdings	Health care	Acquisition	**117**	100
AMR Constructions	Macquarie Asia Pacific and Squadron Capital	Construction	Private equity	**91**	NA

Ernst & Young is a leading M&A advisor in India. The data is based on media reports and company announcements. Any decision on the basis of this information should be taken only after professional advice. *Business Today* or E&Y do not undertake any responsibility with regard to any such decision
*February 15 to March 14, 2011 Not a complete list

Q.

Will the government be able to meet the fiscal deficit target set in the Union Budget?



Results of *BT* online poll; No. of respondents: 161

The majority feels that the Finance Minister Pranab Mukherjee is unlikely to meet his ambitious fiscal deficit target of 4.6 per cent for 2011/12. And it's not surprising.
It will be a difficult target to attain largely due to the upside risks to oil subsidy and the wage Bill under the social employment programmes such as the National Rural Employment Guarantee Act. True, the government seems to have reined in fiscal deficit in 2010/11 at 5.1 per cent doing better than the target. But this was largely due to the windfall from the 3G spectrum and the broadband wireless access auctions.

Next poll question:
Will the crisis in Japan weigh down stocks in Asia?
Log on to www.businesstoday.in to cast your vote

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"For another Green Revolution, you need technology... Services like electricity and water; marketing... and lastly, farmers' enthusiasm. The last is the most important input and it is totally absent."

M.S. Swaminathan, *member of the National Advisory Council and father of the Green Revolution, discussing the budget allocation for agriculture, in* Business Standard

"Corruption is a bad thing but from the micro perspective in which we work, India is still a good opportunity and we are investing here."

Jeff Immelt, *Global CEO, General Electric, on the company's India plans, in* The Economic Times

"One of the frustrations that foreign bankers have in India is that it's very difficult to make inorganic investments."

Stuart T. Gulliver, *CEO, HSBC Holdings Plc, in* Mint

"The government runs hundreds of schemes... abolish all of them and run only 10 or 12 which are absolutely necessary. There should be one in every infrastructure sphere and ensure that they are monitored properly."

Yashwant Sinha, *former Finance Minister, on welfare schemes, in Parliament*

"If I were taking favours from people, I would be doing far bigger things."

Robert Vadra, *New Delhi-based entrepreneur and son-in-law of* UPA *chairperson Sonia Gandhi, in* The Economic Times

CLASSIC BUSINESS QUOTE

"The way to get started is to quit talking and begin doing."

Walt Disney

I am

a firm believer
in the ability of youth
to lead change in Asia

Ronnie Screwvala
CEO and Founder of UTV Group,
South Asia's leading media and
entertainment conglomerate.
And one of Time Magazine's 100 Most
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And enabling them to forge strategic relationships, which power them across today's Asia. Into tomorrow and beyond.

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DBS Bank. Living, Breathing Asia

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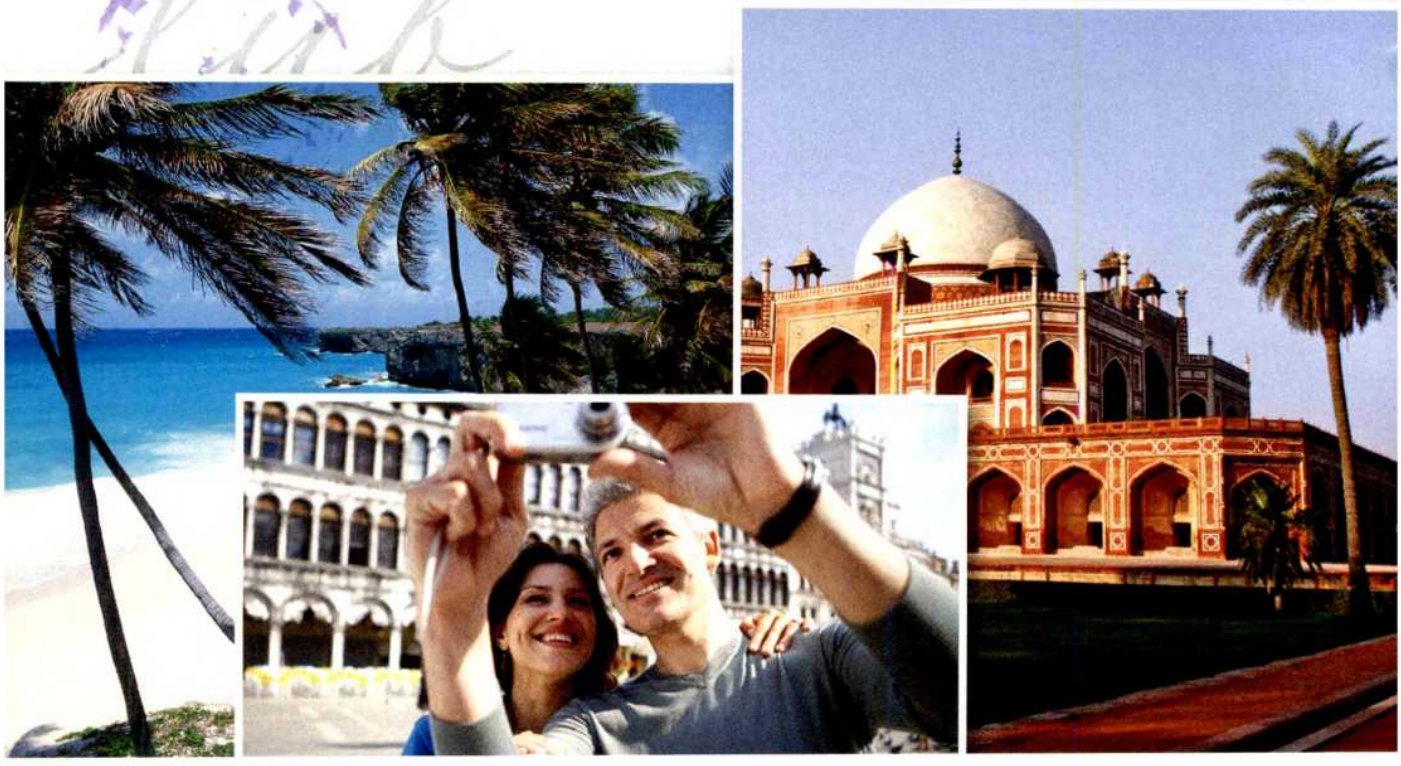

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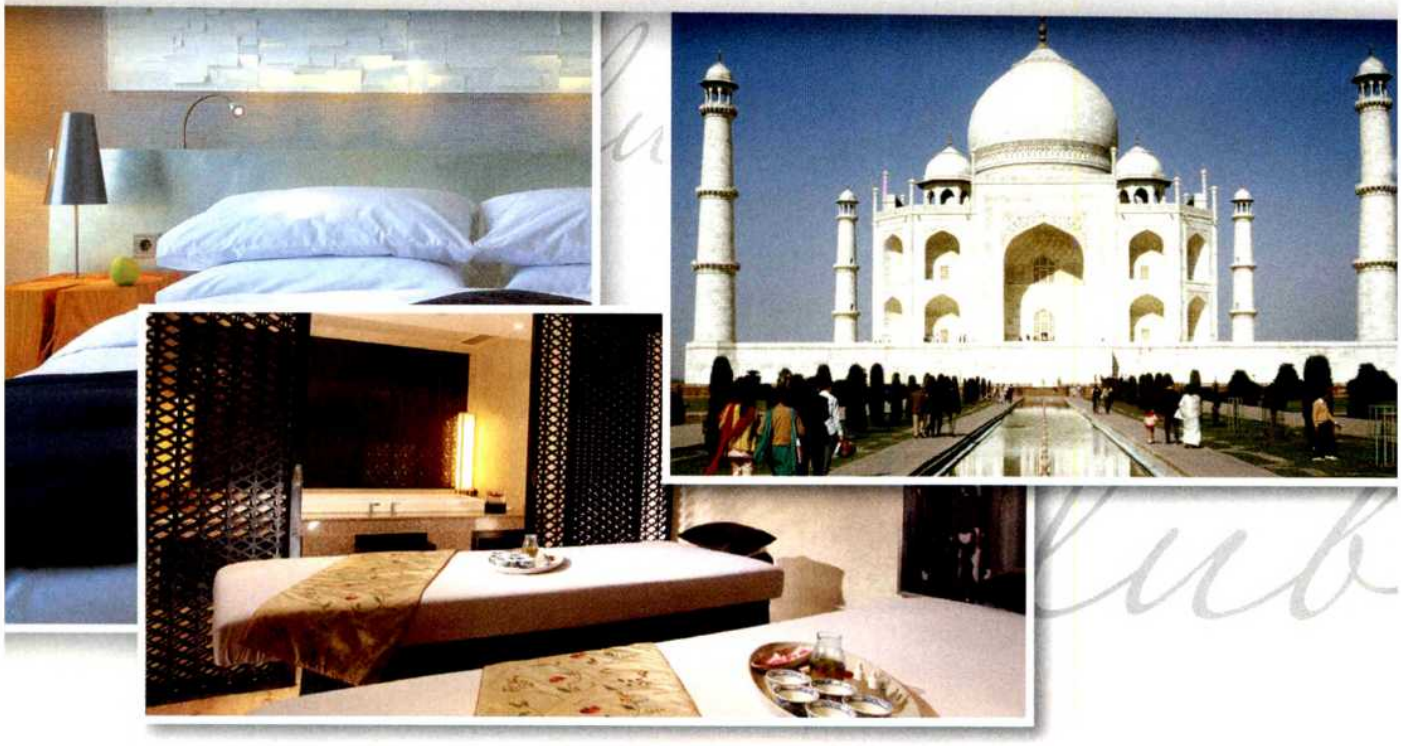

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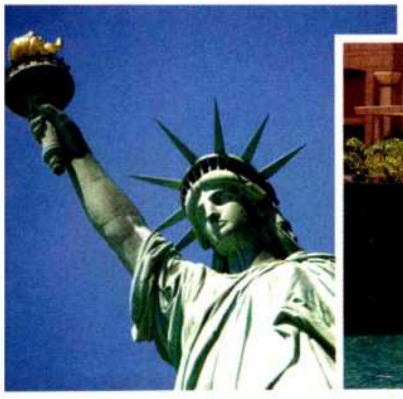

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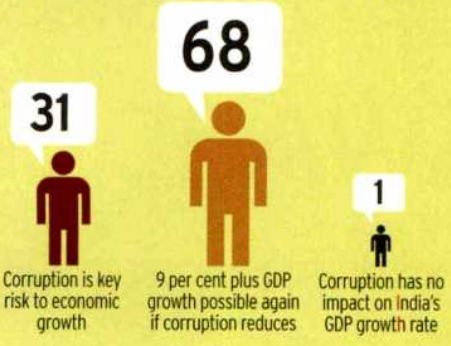
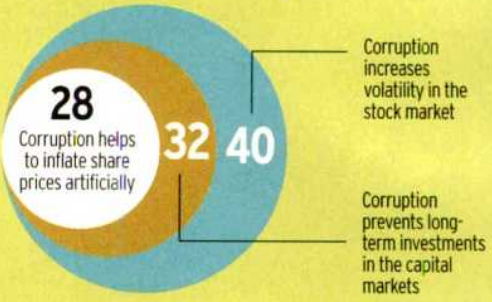
THE COST OF CORRUPTION

Corporate India feels corruption is one of the biggest impediments to economic and social development in the country, according to a survey of leading companies by KPMG.

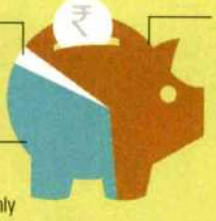
Impact of corruption on India's GDP growth



Impact of corruption on capital markets



Impact of corruption on investment



3
Corruption will have no impact on investments

46
India will attract investments, but only in select sectors

51
India will attract less investments than its peers owing to corruption

Impact of corruption on business

All figures are percentage of respondents
Source: KPMG's Bribery & Corruption Survey 2011

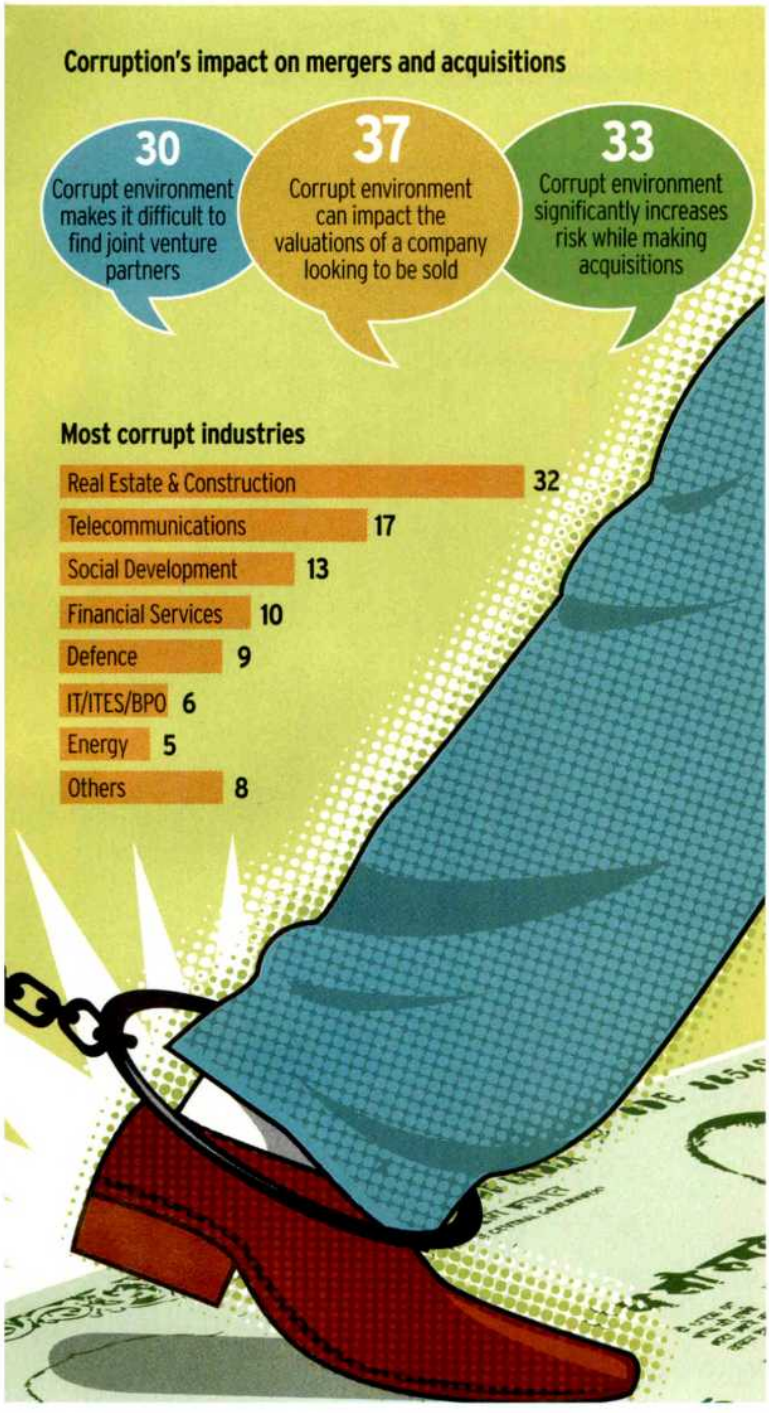
5 STEPS TO HERE
THE HARSHAD MEHTA LEGACY

1

April 1992
The ₹4,400-crore stock market scam comes to light. Mehta triggers a bull run with public money borrowed from banks.

2

April 1999
Mehta and his four associates face 35-odd court cases. He is charged with several criminal offences.



GRAPHIC BY SANTOSH KUSHWAHA

BT Retro
December 30, 2007

It's about 'soft power'

THEN: "The figures are out, and like all statistics, are open to different interpretations. The Indian Cricket League's inaugural tournament has delivered TRPs of 0.3 to 0.5. That, in itself, will not send advertisers into raptures; the ongoing India-Pakistan Test series is attracting at least five times as many eyeballs. But the real significance of those admittedly modest viewership figures lies elsewhere.

They prove, beyond any doubt, that there is a significant market for cricket outside of official sanctioned matches. ICL's "score" is all the more creditable because its tournament comes bang in the middle of an Indo-Pakistani Test series — fast emerging as the gold standard of international cricket — in which India is hammering the stuffing out of its traditional rivals.

The official Indian Premium League will kick off next year. It has the backing of the International Cricket Council and all the cricket boards around the world. So, it will get all the big stars from India, Australia, England, South Africa and the other big cricket playing nations. So, it's a no-brainer to predict that it will be much bigger than ICL. Together, these two tournaments will be unique, in the sense, that they will ensure that for the first time in history, India will be at the centre of an international sport. This country has been the game's financial engine for about a decade now.

NOW: ICL lasted just two seasons while BCCI's IPL is gearing up for its fourth season. IPL 4 is expected to garner advertising revenue of over ₹900 crore.

3

August 2001
Supreme Court orders liquidation of Mehta's assets to clear his income tax dues and repay SBI and other banks.

4

December 2001
Mehta passes away on December 31. The I-T department receives ₹1,227 crore and SBI gets ₹600 crore by 2004.

5

March 2011
The I-T department receives another ₹1,995.66 crore clearing its outstanding principal amount.

ANAMIKA BUTALIA

"Don't Compare India and China"

Jamshedpur boy MANOJ SINGH *is the Global Managing Director of Operations at Deloitte Touche Tohmatsu, one of accounting's Big Four worldwide. An IIT Kanpur alumnus, Singh has been with Deloitte for 32 years.* BT*'s* SUMAN LAYAK *caught up with Singh on his recent visit to India. Edited excerpts:*

India will continue to be a hub for knowledge services. But it is also becoming an important destination for manufacturing. That is important as the working population is increasing and manufacturing creates jobs. Automobiles and precision technology are areas of growth. India is also a great investment destination for pharmaceuticals, health care, sustainability and green energy.

India versus China is not a relevant question for me. China has invested very well in infrastructure. You go into some of the tier II cities of China and you will see airports and roads that are better than those in the developed, mature markets. Along with excellent infrastructure and large-scale manufacturing, you find labour at lower costs in China. But private equity players still enjoy operating in India much more as entry and exits are much easier here than in China.

Our consulting business is worth $7 billion to $8 billion and this is significantly larger than that of some of the other consulting majors who restrict themselves to an area called "strategic consulting". We, on the other hand, do a lot of work on human capital. We have a wider footprint in the advisory space.

I am by no means the longest serving employee at Deloitte. There are quite a few with more than 35 years in the company. It takes a new entrant between 6 and 10 years to become a partner and after that you are free to decide what you want to do in the firm.

NISHIKANT GAMRE/www.indiatodayimages.com

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HOW THINGS WORK

Reducing the Impact of a Tsunami

Images of the catastrophic damage in tsunami-hit Japan have flooded the media. As even a cursory glance suggests, the 2004 Indian Ocean tsunami caused less damage. What made the difference? Here are some pointers that can serve as lessons for all coastal cities:

A SEAWALL PROTECTS: At Patong beach in Thailand, a seawall dissipated much of the energy of the tsunami and reduced the number of casualties. The parts of the island that got destroyed were those where the seawall had been breached to enable easy access to the beach.

MANGROVES ARE A BUFFER: Forget unobstructed beach views. An effective method of withstanding a tsunami is to have a moderate to dense spread of trees at the beach. A kilometre of dense tree growth from the shore to Tamil Nadu's Naluvedapathy village saved it from direct damage. Mangroves are especially suited to providing protection.

ELEVATED STRUCTURES HELP: Building an elevated structure about one or two feet high atop a solid but open foundation helps to reduce the pressure of rising levels of water. Strong construction materials, like concrete, that can hold their own against the waves, are recommended.

ILLUSRATIONS BY SANTOSH

JUST WONDERING

Airport Sans Aircraft

When will this airport take-off? Meghalaya's Baljek airport was declared 'open' by President Pratibha Patil in October 2008. But the only aircraft to have landed there so far has been the President's own, on the day of the inauguration. Baljek, Meghalaya's second airport — there is already one at Shillong — was intended to serve the second-largest town in the state, Tura. Unfortunately, the airport has been marred by controversy since it was first thought of. The project proposal was sent to the Centre in 1983, but sanction only came in 1995, while the opening took another 13 years. The delay in opening was inevitable since the infrastructure was not complete. Baljek can only land small airplanes — up to 20 seaters. Yet now that it is ready, no airline seems interested in using it. Indeed, even the other airport at Shillong hardly sees much activity, with most visitors to the state preferring to land at Guwahati in Assam and drive up from there.

COMPILED BY ANAMIKA BUTALIA

QUIRKY

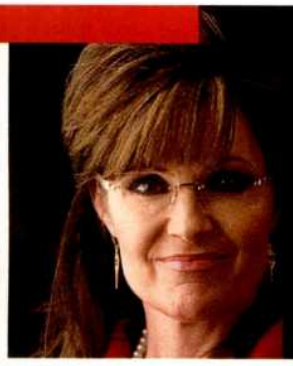
Scam Sham

Kiran Bedi would never have imagined that her 2003 stint with the United Nations would one day come in handy for Nigerian fraudsters. But it has. The conmen have not only impersonated Bedi, they have also used a novel means of extortion. An e-mail, purportedly from Bedi, warns of a scam she is investigating as a civilian police adviser to the UN. And what is the scam? Fake e-mails inform about "ruthless Nigerians" impersonating top UN personalities like Secretary General Ban Ki-moon! The mail, signed by "Crime Fighter Bedi", goes on to ask for $5 million to get funds intercepted by Nigerian fraudsters released. Sadly, the e-mail shows poor homework – Ban Ki-moon has been spelt as 'Bank Ki-Moon'.

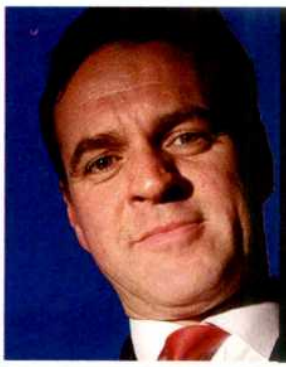
SNOOT CORNER

Sparkles of a Different Kind

The charm of bubbles rising out of slim flute glasses and forming a pearly necklace is irresistible. Champagne etiquette emphasises chilling champagne in a refrigerator for at least 20 minutes before it is consumed. Cut the foil and undo the wire cage (muselet) around the bottle first. To uncork the bottle with panache, grasp the cork tightly in one hand and lift up the bottom end with the other. Tilt the glass and let the wine slide in to preserve the bubbles and avoid creating a mousse (froth). Fill the glass no more than two-thirds for the aromas to circulate.



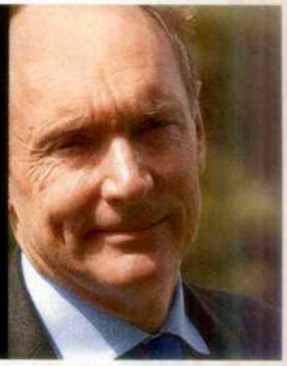
"You have to have the courage to set the record straight yourself."
SARAH PALIN

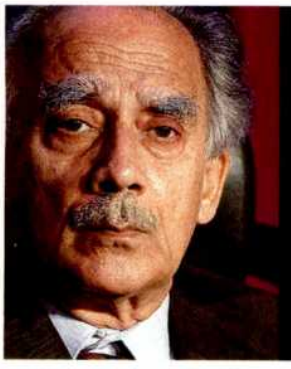


"The problem of corruption in American politics has to be addressed more openly."
NIALL FERGUSON

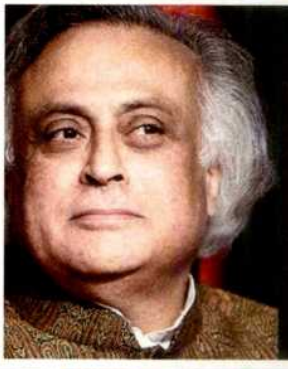
"The goal should be a world in which everybody feels secure without having to rely on nuclear weapons."
MOHAMED ELBARADEI

"The question is what power should a democratically elected government be given to restrict access on the Internet."
TIM BERNERS-LEE



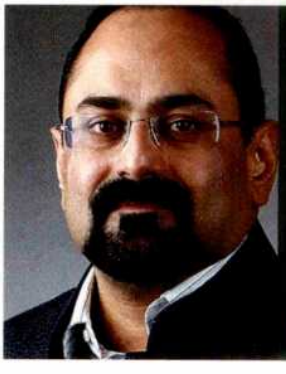


"The CBI told me they have uncovered at least one of the money trails of the 2G scam... There should be day-to-day hearings."
ARUN SHOURIE



"Indians delight in passing laws and take greater delight in bypassing them."
JAIRAM RAMESH

Festival of Ideas



"We need not just a strong judicial system but strong regulators."
RAJEEV CHANDRASEKHAR

This year's *India Today* Conclave, the tenth in the series, took place against the backdrop of the natural disasters in Japan that nearly caused a nuclear meltdown, and political upheaval in North Africa and West Asia helped in no small degree by the Internet and social media. And who did we have as guest speakers? Eminent historian Niall Ferguson, Egypt's opposition leader and Nobel laureate Mohamed ElBaradei, better known for his role at the International Atomic Energy Agency, and the Internet's founder Tim Berners-Lee, among others. The star of the show was Republican Party leader Sarah Palin, with the likes of Arun Shourie and Jairam Ramesh helping keep alive the domestic debates on corruption and forests versus industry. The two-day exclusive event had enough takeways for the who's who of India's industrial and political landscapes. We bring you the best from the Conclave.

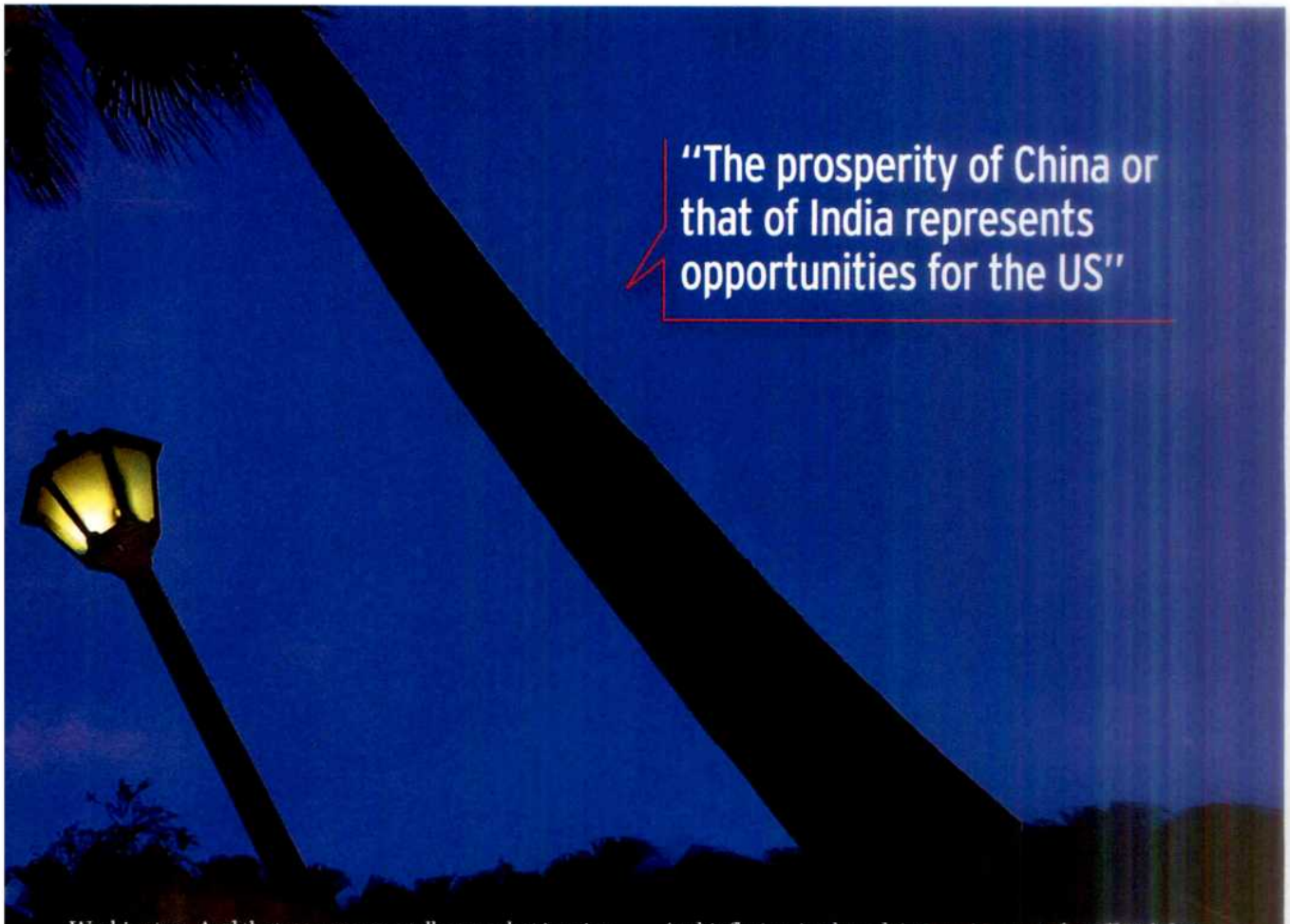
[NIALL FERGUSON] British historian and Harvard University professor

"Washington is Starting to Look Like Delhi"

An erudite scholar, acclaimed author and the William Ziegler Professor of Business Administration at the Harvard Business School, British historian Niall Ferguson wears several hats. At the *India Today* Conclave, Ferguson spoke on "American Decline: Myth and Reality". On the sidelines of the Conclave, *BT*'s **CHAITANYA KALBAG, RISHI JOSHI** and **MANU KAUSHIK** caught up with Ferguson for a free-wheeling interview. Edited excerpts:

On whether the US is in decline: I think there are two issues which are quite separate. One is the rise of the East and the South and that is a good thing. And so any relative decline, if it just means India or China is growing rapidly, is not something Americans should complain about. The prosperity of China or that of India represents opportunities for the US. But the issue that is of greater concern is that the US has internal problems that it is not grappling with well, and these are impacting its long-term prospects. I think the biggest is probably the fiscal crisis because the cost of entitlements like social security and medicare is already greater than the cost of the entire military establishment. Until I see signs that American politicians are serious about the reform of medicare, social security and the tax system I will be pessimistic.

On the problems of the US and Indian democracies: Washington was starting to look a lot like Delhi but to some degree Delhi is also starting to look like



"The prosperity of China or that of India represents opportunities for the US"

Washington. And that convergence tells you what is going wrong in the US more than what is going right in India. The problem of corruption in American politics is one that has to be addressed more openly. The reality is that the financial crisis exposed the dangerous levels of overlap between the financial institutions and political institutions to the point of near absurdity. It appeared as if the treasury department had become a subsidiary of Goldman Sachs. I think there is a similarity there with India. I think the other critical similarity is that political vested interests in both systems stand in the way of structural reform.

On why the US is the leader in innovation: Many people doing innovation in the US are not American born. They came to the US because Harvard, Stanford are still the ideal locations in terms of clusters of talent. If you want to take a really cutting edge idea from the laboratory into the market, the US is still the best place. India's elite educational institutions just don't seem to be doing quite as much in terms of commercial spin-offs as their American counterparts. The Chinese are furiously trying to create clusters around their top universities on the American model. They are very shameless about copying what's good.

On the state of the global economy: I think it's really way too early to declare victory over the crisis because the US housing market is still in the doldrums. If you look at unemployment the official figure is understating it. And inflation is also edging up in ways the official data doesn't capture. The trouble is that people base their judgements of the US economy based on the US equities market, not realising that S&P 500 companies are doing well not because the US economy is recovering but because there is sustained growth in Asia, there is sustained growth in Brazil and so on. If you actually look at the companies focused on the US consumer, it is still pretty fragile.

On the Japan crisis: The trouble is that Japan isn't that well set up to deal with this problem. It is not a society which has a lot of unskilled labour. Japan is going to struggle with the reconstruction work with the workforce that it has. I actually think the bigger question is about Japanese government bonds and the additional borrowing that would clearly be needed. When you get to the point of reconstruction work, my sense is Japan will need to attract capital into the reconstruction process. It is going to push up Japanese interest rates. Think of the German unification as an analogy. The West Germans suddenly had the cost of East Germans to handle and the effect was to push up German rates quite substantially. And I think it seems a likely story in Japan for the second half of this year. ◆

Longer version of interview at
www.businesstoday.in/conclave-interviews

SAPTARSHI BISWAS/www.indiatodayimages.com

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TIM BERNERS-LEE Computer Scientist

"Internet Has to be a Neutral Place"

Sir Timothy John Berners-Lee, 55, is regarded as the father of the World Wide Web. A British engineer and computer scientist who currently teaches at the Massachusetts Institute of Technology, Berners-Lee also heads the World Wide Web Consortium, or W3C, a standards body that sets benchmarks and standards for the Internet. In 1980, then an independent contractor at Swiss research institute CERN, Berners-Lee conceptualised the hypertext, or the embedding of a link inside a line of digital text. Nine years later, with more experience in the computer networking space, he linked hypertext to the transmission control protocol and the domain-name system to complete his creation. Attending the *India Today* Conclave, he spoke to *BT*'s **KUSHAN MITRA**.

On whether the 'web is dead': I believe by creating apps that can only be accessed by a small subset of users, content providers are actually decreasing the Net. People can take information from the web and create nice applications, but when information is out there on the Net you can share the hyperlink, tweet about it and so on.

The Net changed the direction of political discourse: A newspaper has limited geographic boundaries, while the Internet is instant and more inclusive. It also means you can use social means to solve bigger problems. The web opens up possibilities in building businesses, and for democracy. We have just started experimenting.

Governments are afraid of the Net: Unpopular or oppressive governments are very afraid of any means that allows people to communicate. Incidents in North Africa recently have been very exciting as they have demonstrated the power of the Internet. The question also is how much power should a democratically elected government be given to restrict access to the Net? Maybe enough to tackle serious cases of terrorism. But there are cases where governments use the Net to spy on their own people. The Internet has to be a neutral place. People should be able to see content uncensored and without being spied upon. ◆

The web opens up possibilities for building business and democracy. We have just started experimenting

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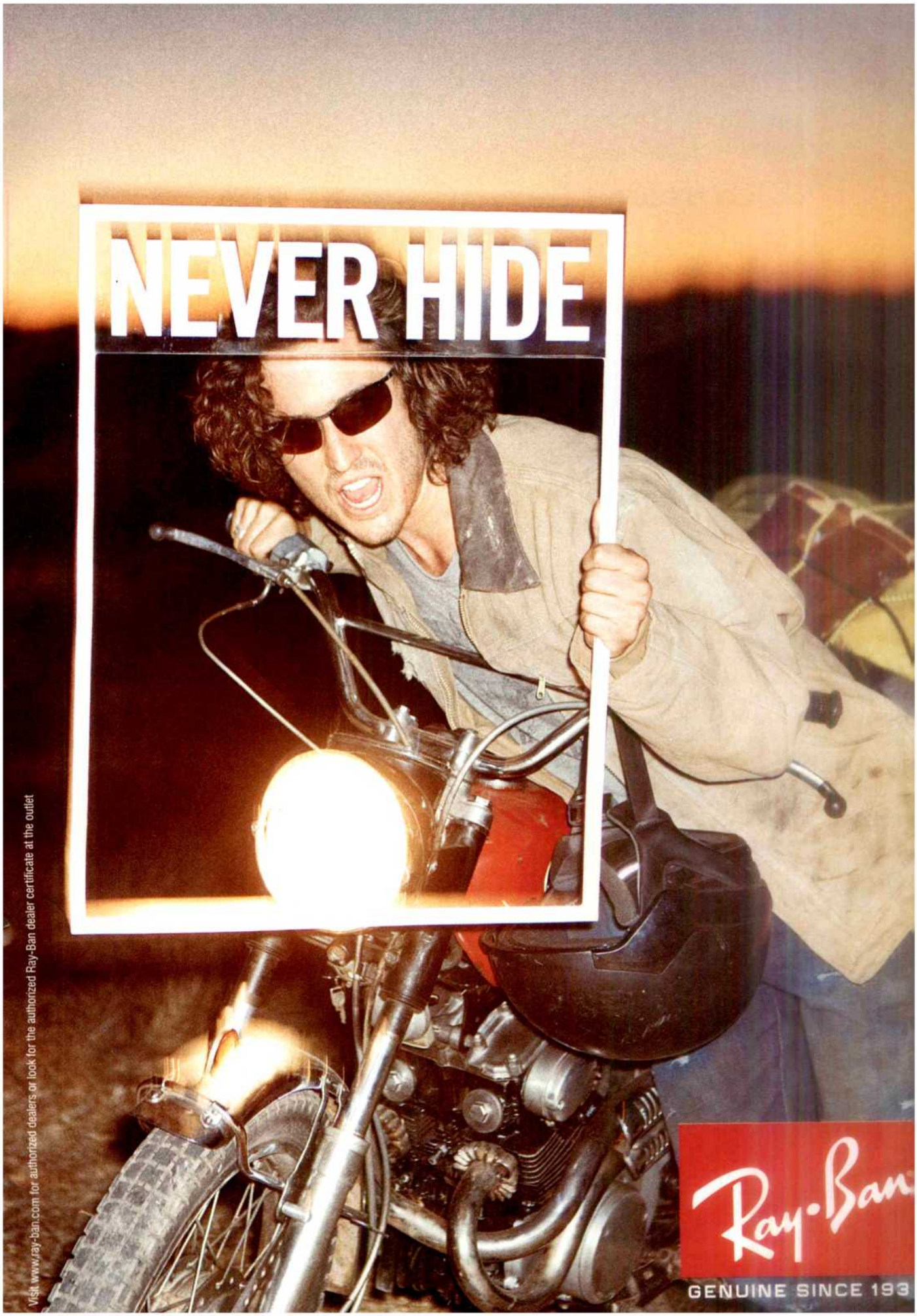
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MOHAMED ELBARADEI Opposition leader, Egypt

"Countries Like India are Ideal Models"

The world's attention is focused on how Japan is tackling the calamity brought about by the March 11 earthquake and tsunami, and pro-democracy movements in West Asia and north Africa. In Delhi, on the invitation of the *India Today* group for its Conclave, Mohamed ElBaradei, Egypt's Opposition leader and former head of the International Atomic Energy Agency, was much sought after. The former diplomat, who is standing for the presidency, spoke to *BT*'s **ANIKA GUPTA AND SOMNATH DASGUPTA.** Edited excerpts:

On running for Egypt's presidency: We are at an early stage of the transitional period and I am focusing on making sure that we do it right... In my view we need a new Constitution, we need to give the right to give people the right to establish parties, to reactivate civil society, before we go into election...If we do it right, the impact on the Arab world will be tremendous.

On help from India for the elections: We haven't lived in a democracy, people don't even know what democracy is about, how to go about elections... We are a novice in all that... I think a country like India — particularly a country like India [could help], because people have their own perceptions about the West coming to tell them, in having a hidden agenda. I don't think anybody will think that India will have a hidden agenda.

On Egypt's economy and his plans for it: I would like to focus on basic needs– 40 per cent of Egyptians live on less than two dollars a day. The gap between the rich — and we have quite a few billionaires on the Forbes 500 list — is obscene. The priorities of course are health care, food, housing and education. Education is No. 1. Unless you invest heavily in education, you will not be able to compete.

I have always advocated that we need to cooperate closely with countries like India, South Africa, Brazil. These countries have gone through our experience, have knowledge that fits our culture, our level of development. I need to look more to the emerging powers, and not really to the West, because, you can get cheaper technology, you can get technology that is easily adaptable.

> "We are at an early stage of the transitional period and I am focusing on making sure that we do it right"

But this is just off the cuff. In a democracy, we have to sit together and make sure that we make use of the best brains we have. And Egypt for one thing is not short of good, qualified people.

On the nuclear non-proliferation treaty or NPT: It is not sustainable. ... you have to engage India, you have to engage Pakistan.... I think in any disarmament negotiation, India has to be at the table, Pakistan has to be at the table, Israel has to be at the table. It is a fiction to think these are not nuclear weapon states. To me it is not the question whether you are a recognised or not recognised. It is a reality that they are weapon states, it is a reality that they have a security threat, and you have to address the security threats, and develop a global security system where everybody feels secure — one that does not rely on nuclear weapons. ◆

MONEY SHARMA

Longer version of interview at www.businesstoday.in/conclave-interviews

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[ARUN SHOURIE] BJP Leader & NDA's Telecom and Disinvestment Minister

"On 2G Scam, Centre has Succeeded Not the Opposition"

BJP leader Arun Shourie is in touch with the Department of Telecom official who blew the whistle on the 2G scam that has led to the arrest of former UPA telecom minister A Raja and his key associates. Shourie believes what he is doing has someone worried, and that in turn has produced what he calls a "swallow, vomit journalism" type of expose on how he disinvested government shares in Videsh Sanchar Nigam Ltd, or VSNL, in 2002. On the sidelines of the *India Today* Conclave, Shourie spoke to *BT*'s **PUJA MEHRA**. Excerpts:

On the allegation that as disinvestment minister in 2002 he structured the divestment of government shares in VSNL in a way that gives its surplus land to the Tatas for a song: The Tatas can't sell it. Why doesn't anyone look at the agreement? There were 774 acres which were identified by VSNL as surplus. The agreement itself provides if they sell the land all the profits will accrue to the government. They cannot even take 25 per cent — or their share in the equity of VSNL — of the proceeds. If it is not demerged and it is not yet sold what is the problem?

On the accusation that as telecom minister he created a monopoly on international phone services for VSNL after the divestment: Look at the contract again. It had a monopoly till 2004, but the government could not have allowed a private company that, so the monopoly was ended in 2002.

But it was listed in India and on the New York Stock Exchange. Its shareholders would have gone to court over the monopoly being ended at the time of the disinvestment. So a compensation package was provided where it was said Bharat Sanchar Nigam Ltd, BSNL, and Mahanagar Telephone Nigam Mtd, MTNL, would route their calls through VSNL which would have to give them market rates.

On his interactions with the CBI over the 2G scam: I handed them copies of the letters former TRAI chairman Nripendra Misra had written saying Raja did not follow his recommendations. The CBI told me they have uncovered at least one of the money trails in the 2G scam. In all cases of investigation of corruption by public servants there should be day-to-day hearings. Also, the onus should be on the accused. If Sukhram has ₹4.5 crore in his bedroom, he has to say how he got it, not the CBI.

On the anonymous whistle-blower of the 2G scam who approached him first: The CBI is in touch with him. He has given them all the information. I have been telling them to record his statement before a magistrate.

On his allegation that the joint parliamentary committee on 2G scam will deflect attention from real issues: There are two issues: who made the money and what were the prime minister and finance minister doing? Now they have made 200 issues. With limited mobility, spectrum policy etc, the Centre is diffusing the issues. ◆

"With limited mobility, spectrum policy, the Centre is diffusing the issues related to 2G scam"

HEMANT CHAWLA

Longer version of interview at www.businesstoday.in/conclave-interviews

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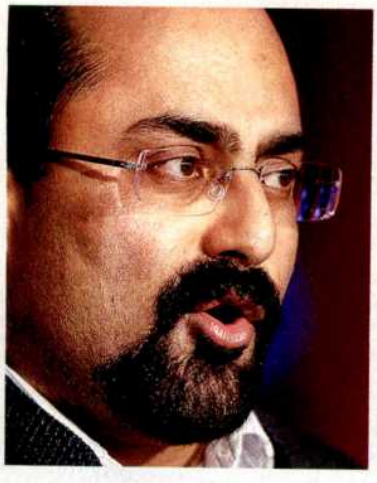
"We Need Strong Regulators"

Corruption, nepotism...are symptoms of a deep-rooted malaise in our governance," argued Rajeev Chandrasekhar, one-time telecom magnate and now independent Member of Parliament, at the *India Today* Conclave. He rued the lack of independent regulators, telling Business Today if the unholy nexus of business and politics was to be broken, "we need not just a strong judicial system but strong regulators".

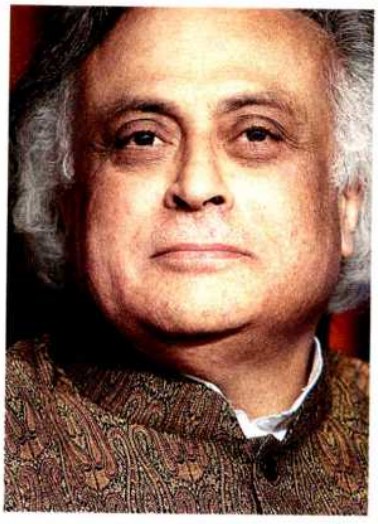
Speaking alongside Arun Shourie, politician and former journalist, and real estate baron K.P. Singh, Chandrasekhar said businesses should push for changes and a framework where success derives from enterprise and innovation, and not from proximity to politics. "When I was the odd one out in the belief of auctioning spectrum, I remember telling a telecom friend that a business strategy that depends exclusively on gaming the system of proximity to power will always invariably be bested by someone else who is better at gaming and fixing the system," he said. ◆

RAJEEV CHANDRASEKHAR
Member of Parliament



"Green GDP a Matter of Livelihoods"

JAIRAM RAMESH Minister of State for Environment and Forests



Industry's most-hated minister, Jairam Ramesh, whom his critics cite as the biggest threat to India's GDP growth, stuck to his guns at the *India Today* Conclave.

Ever since he stepped into Paryavaran Bhawan in May 2009, Ramesh, Minister of State for Environment and Forests, has halted industrial projects at the rate of one a day, including many for which clearances had been given as far back as in 2006.

Addressing a session on "The Way to a Green GDP", Ramesh said there were four concerns that had led him to his position on the trade-off between growth and environment: livelihoods, public health, climate change and sustainability.

The MIT-educated minister said that he has set in motion a process that will, by 2015, enable India to report a green GDP. Some evidence from a 2010 World Bank report, "Changing Wealth of Nations" and a Cambridge university study suggest a substantial gap between GDP growth and real well-being measured by GDP adjusted for conservation of ecology and environment, he pointed out.

"A green GDP is not a matter of lifestyle but livelihoods — of small farmers and tribals," Ramesh said, evoking the Chipko Andolan, the first social-ecological movement in independent India. Similarly, the cancer epidemic in Bhatinda caused by excessive pesticide use, and the lingering effects of the Bhopal gas leak show that the constituency for green sensibilities extends beyond the elite and the middle-classes, he said.

On the third concern, climate, Ramesh advocated a calibrated approach: "We don't have to be climate evangelists but we needn't be atheists either." The reasons: no other country bears the brunt of the changes in monsoon and climate patterns as India does; around 300 million Indians on India's vast coastline face the threat of a tsunami; and the retreat of Himalayan glaciers puts at risk the water security of all of middle India. Finally, he said, India needs to worry about sustainability. Given the rapidly growing population of young people in India, it is incumbent on the present generation to ask what natural resources it will bequeath.

The environment minister defended his crusade against industrial projects that breach Indian environment laws. "Indians delight in passing laws and (take) greater delight in bypassing them," he said. ◆

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Lessons for India

Is India's nuclear establishment prepared to deal with a Fukushima-type crisis?

By ANIKA GUPTA, E. KUMAR SHARMA and ANUSHA SUBRAMANIAN

DIGITAL GLOBE

Explosions at Fukushima Daiichi nuclear complex in Japan

"There is no nuclear accident or incident in Japan's Fukushima plants. It is a well planned emergency preparedness programme."
S.K. Jain, Chairman, Nuclear Power Corporation of India Ltd (NPCIL)

"It was purely a chemical reaction and not a nuclear emergency."
Srikumar Banerjee, Chairman, Atomic Energy Commission

On March 14, three days after an earthquake and tsunami incapacitated cooling facilities at the Fukushima Daiichi nuclear plant in Japan and prompted authorities to declare a "nuclear emergency", India's top nuclear officials still claimed the plant operator was only carrying out "a well planned emergency preparedness programme".

Over the next few days, as the threat of a nuclear catastrophe became real, these same officials rushed to assure the public that a Fukushima-type disaster could never happen in India. Indian reactors are built to withstand quakes, they use different technology, and India follows all safety norms, they said.

But independent experts claim the Department of Atomic Energy, or DAE, is opaque, secret and unaccountable. "The Indian nuclear establishment writes itself validation of its own totally fault-free, risk-free performance," says V.V. Desai, a former chief economist at the Asian Development Bank who has been involved with the power sector. Agrees A. Gopalakrishnan, former chairman of the Atomic Energy Regulatory Board, or AERB: "Our nuclear plants need a high-level in-depth review by an independent expert group." Others say radiation data from nuclear plants should be in the public domain, and the AERB must involve independent experts to calculate risks and monitor performance.

Officials cite physical factors to claim that India's plants cannot suffer a Japan-type disaster. All but one of India's nuclear plants are in the relatively safe seismic zone 3 (Narora in Uttar Pradesh is in zone 4). In contrast, almost all of Japan falls in zone 5, prone to the most severe earth-

V.V. DESAI, Former Chief Economist, Asian Development Bank

"The Indian nuclear establishment writes itself validation of its own totally fault-free, risk-free performance"

quakes. Again, most Indian plants have heavy water reactors while the 40-year-old Fukushima plant had boiling water technology. "It is easier to manage heavy water reactors," says P. Ravindra Reddy, Chairman of MTAR Technologies, supplier of fuel handling systems and other core-related components to NPCIL.

After the Japan crisis, NPCIL said India's power plants have weathered natural disasters well. During the 2004 tsunami, the Madras Atomic Power Station went through proper shutdown procedures. The Kakrapar Atomic Power Station in Gujarat functioned through the 2001 earthquake. But a risk-free past is no guarantee of a similar future. Already, there are protests over NPCIL's deal with France's Areva to set up a project at Jaitapur, using a yet-to-be-operational technology.

The Japan earthquake is the worst ever in a region that reports more than 1,000 quakes a year. A DAE official admitted the department does not have "a readymade answer" to deal with such a crisis. The lessons of Japan are not limited to location, power supplies or safety standards. The Fukushima plant building did not suffer any damage in the quake and went through the shutdown procedure. Failure of backup power and water supplies led to the crisis. India's response so far, then, has been to set up a panel to look into backup power and cooling water sources at all nuclear plants.

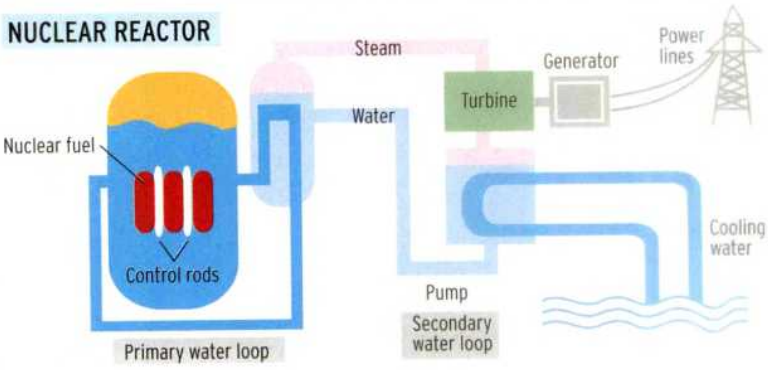
Japan's prompt evacuation was also praiseworthy. On the other hand, AERB's disaster preparedness is mainly on paper and the drills conducted are once in a while and half-hearted, says Gopalakrishnan. Agrees G. Balachandran of the Institute for Defence Studies and Analyses: "It is important to note the speed with which Japan acted."

There could be lessons for India in this. After all, the greatest disaster in the country's history, the gas leak at Bhopal, was not caused by an earthquake or a tsunami. ◆

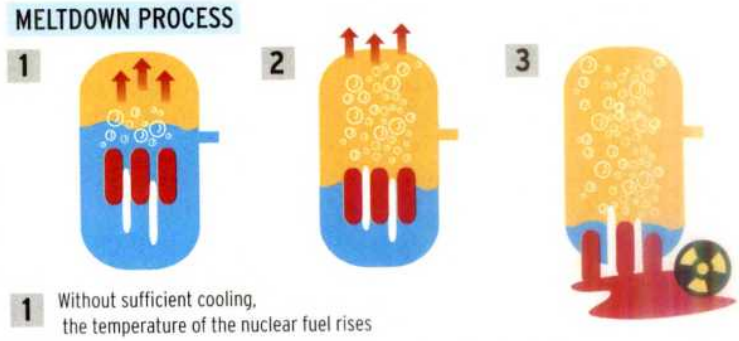
Anatomy of a Nuclear Meltdown

A boiling water reactor generates electricity by turning water into steam. The steam turns turbine generators to produce power. Heat to boil the water is provided by a controlled nuclear fission reaction, but if the fuel rods overheat, a nuclear meltdown could follow

NUCLEAR REACTOR



MELTDOWN PROCESS



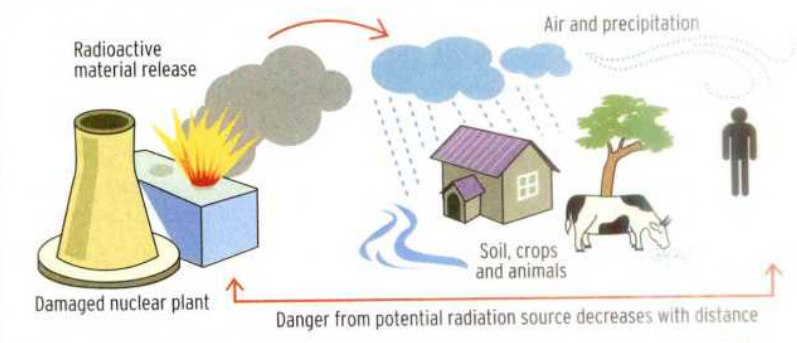
1 Without sufficient cooling, the temperature of the nuclear fuel rises

2 AT 1,900 ºC the non-circulating water boils off, leaving the fuel rods uncovered

3 The fuel rods melt and drip into the bottom of the pressure vessel, which can melt through the reactor base and release radioactive elements into the environment

HOW NUCLEAR RADIATION SPREADS

In the case of a reactor meltdown, the chances of radioactive materials being released into the environment are high. It then permeates the soil and contaminates the crops grown on it



RADIATION EFFECTS ON HUMANS

Certain body parts are more specifically affected by exposure to radiation.

1. Hair
2. Brain
3. Thyroid
4. Blood System
5. Heart
6. Gastrointestinal Tract

Based on information from US Nuclear Regulatory Commission, European Nuclear Society and other sources

GRAPHIC BY SANTOSH

Ripple Effect

The calamity has affected Japanese business badly, including companies that have a presence in India. By E. KUMAR SHARMA

In September 2006, when Sapala Organics CEO Masami Nakane was setting up the custom research organisation's facility near Hyderabad, he found having to pay for a power back-up, odd. "I was surprised to see captive power generation as part of construction cost," he says. "I was equally surprised by the standby batteries attached to desktop computers." Nakane was fresh from Japan, where blackouts are almost "non-existent". "In Japan, electricity is like air. You just have to turn on the power switch and it is there and will be there as long as you keep the switch on," he adds.

Not anymore. Nakane and his clients in Japan have had to face unprecedented disruptions in power supply after the March 11 earthquake and tsunami damaged generating facilities, including the Fukushima Daiichi nuclear power plant.

What happens in Japan is important for Nakane. Not just because it is his home country and his family lives there but also because 80 per cent of Sapala's ₹7 crore revenues come from clients in Japan, most of them drug companies that have research needs. Sapala gets the rest from the United States and Europe.

Nakane, a former executive director of Pfizer Japan, has offered help to the two major Japanese clients who have been hurt, but is not seeing this as a business spin-off. "If my clients have a problem, I do not mind giving free service if required," he says. "In times of emergency, we do not have to think of cost calculations, contract agreements." He feels his clients and businesses in Japan have two options. One, wait for the infrastructure to be rebuilt before resuming work, thus conserving cash. Two, relocate businesses in the short to medium term.

Companies in Japan will need every yen they have to rebuild damaged facilities, so they may cut back on investments abroad or outsource more than before not just to ensure continuity but also to save costs.

Japanese companies present in India have felt the impact differently. Canon India, a leading player in cameras, imaging and printing, got away lightly. Kensaku Konishi, President and CEO, says while none of Canon's facilities in Japan has been affected, some of its component suppliers have reported damage. "We typically hold stock for about one to three months and we will assess the situation with our suppliers. If recovery is going to take long then we will check for alternative suppliers," Konishi says.

He does not expect the supply disruptions to affect revenue by more than five per cent. "We will try and reach ₹1,700 crore in India this year. Even if it does not happen we will be very near it," he said.

A clear picture on the supplies side will emerge in around three weeks. "We have not changed any plans and all our launch plans in India are on schedule," Konishi adds.

In the automobiles sector, Honda Siel Cars India, the Indian automobile venture of Honda Motor Co, said it would be difficult to quantify the im-

KENSAKU KONISHI, CEO, Canon India

"As of now, we have not changed any plans and all our product launches in India are on schedule"

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pact on its factory near Delhi. It imports only one car, the Honda CR-V sports utility vehicle, in its local lineup of four vehicles, but its stock of spare parts will not last long.

"All our products use parts that come from Japan as for most automobile makers. In fact, much of the high-tensile steel we use for stamping body panels is also imported from Japan," says a Honda Siel Cars spokeswoman. "We have enough parts to keep operating comfortably for a few weeks... The situation after that is yet to be worked out as several component suppliers based in northern Japan impacted by the disaster are yet to be reached."

Some Japanese companies in India are going ahead with expansion plans. In Bidadi, near Bangalore, Toyota-Kirloskar Motor cancelled a grand opening ceremony for its second production line, but did get the line started anyway, as demand for the new Etios has been quite strong.

Still, the scale of the economic damage is significant.

A Daiwa Capital Markets report points out that the earthquake-hit region in Japan accounts for about nine per cent of the country's power capacity, but less than four per cent of its manufacturing. Thus it is shortage of electricity that has been forcing plant closures. "While plants should resume operations within weeks, the short-term disruption will be acute — especially for users of key capital goods and components from Japan," the report says. It also sees outward flows of foreign direct investment, or FDI, from Japan getting disrupted as companies look inward at the rebuilding job. "China (including Hong Kong) receives nearly $10 billion in FDI inflows a year from Japan, and India has recently begun receiving a significant flow — so the slowing in FDI should hurt both economies mildly (in April-June)," it notes.

AFP

TSUNAMI AFTERMATH

- Power shortage has slowed industrial capacity significantly
- Insurers and re-insurers are likely to face staggering claims
- Japanese companies could put on hold investments abroad, as they focus on rebuilding at home
- India and China could gain from short-term outsourcing, given good pricing and incentives

Loco Steve at EconomyWatch.com, which calls itself the largest online economics community in the world, points out: "Japanese insurance firms, global insurers and reinsurers, hedge funds and other investors in so-called 'catastrophe bonds' are all expected to bear a portion of losses likely to exceed $100 billion."

"Nuclear plants operators have to buy liability insurance through Japan Atomic Energy Insurance Pool, an industry group. But they need to buy coverage of only about $2.2 billion for liabilities. The pool does not sell coverage for earthquake damage or business interruptions," he writes. The government may have to foot the bill.

A Nomura research expects the disaster to "shave 0.4 to 0.9 percentage points off 2011 real GDP growth but to add 0.3 percentage points to 2012 growth." But it warns that the implications go beyond GDP numbers. It says: "...an event like this — reminding people of their vulnerability in the face of Mother Nature and of the limits of their technology — can also be a shock to confidence and alter the way an individual, and a society, thinks and behaves."

The ripple effect has also jolted the Japanese concept of on-time manufacturing. Little did Nakane, the Sapala Organics CEO in Hyderabad, realise the seriousness of the situation when he got a call from his wife in Japan on that fateful Friday. She was worried about their daughter who was stuck in a bullet train. As a routine procedure, bullet trains are stopped during earthquakes and resume service only after the route is inspected for damage and cleared.

The Nakane family, sticklers for time, may accept a 90-minute delay in the arrival of their daughter's train. Japanese industry may not be as comfortable. It has the painful job of rebuilding its economy. ◆

MASAMI NAKANE, CEO, Sapala Organics

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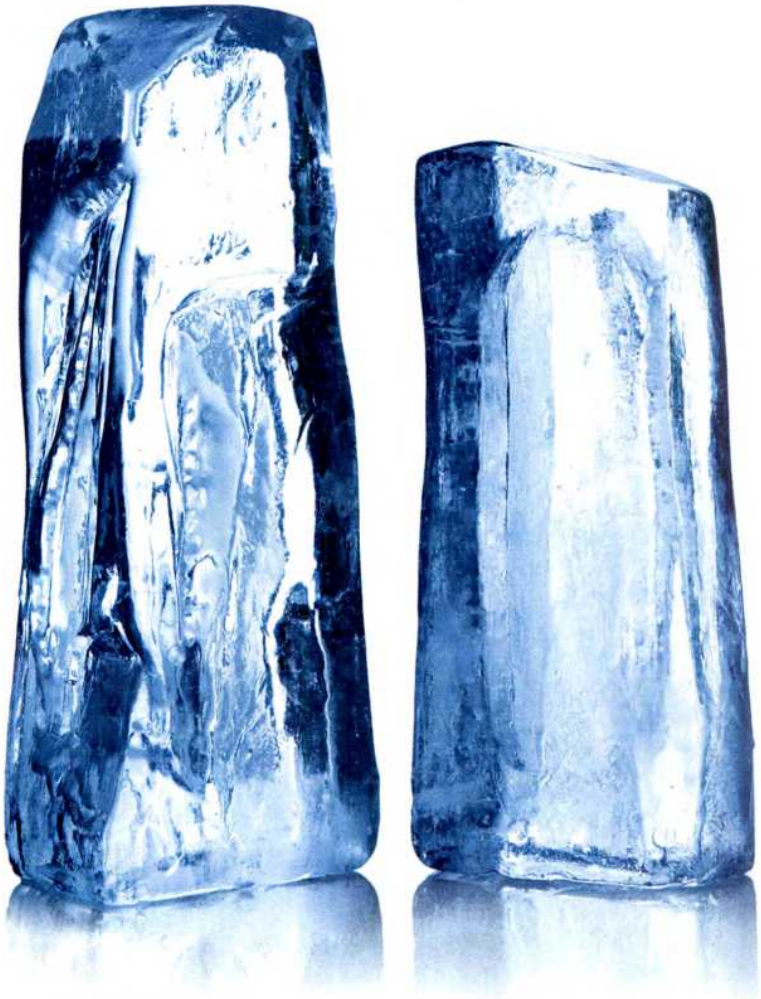

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Bharat Karnad

Legacy as Lasting Nightmare

Certain nuclear aspects of the Fukushima Daiichi disaster in Japan have a bearing on the fanciful power generation schemes that have been taken up by the Manmohan Singh-led Congress Party coalition government.

The Fukushima plant has the same type of light water reactors, or LWRs, fuelled by low-enriched uranium as those India has bought from Russia and is on the verge of purchasing from France and the United States, except that all of these new reactor designs are unproven. Dr Anil Kakodkar, former Chairman of the Atomic Energy Commission, says the new reactor designs incorporate the best processes and technologies developed over many decades. This is not reassuring if the integrated whole has not proved its druthers elsewhere.

Prime Minister Manmohan Singh has not helped matters by approving "energy parks" – nuclear reactors bunched together to achieve production efficiencies of scale. This concept led to "nuclear fratricide" in Fukushima where an accident in one reactor incapacitated the others. Other than India's manifest inability to cope with the cascading nuclear effects of several reactors simultaneously facing different types of breakdown, consider the opportunity cost to Indian industry and services sector if a whole energy park – 10,000 MW plus from the Jaitapur complex alone – drops out of the power grid.

The policy to import reactors seems geared to enriching foreign nuclear suppliers and and our commission-seeking political class, and to bequeathing India future Fukushimas

Because LWRs use low-enriched uranium fuel packages on a "once through" basis, huge amounts of spent fuel end up stacked in cold water storage pools to dissipate the heat and are – as Fukushima showed – a grave health and safety hazard. We have 40 years of experience of this spent fuel problem at the two Tarapur LWRs, which will increase with the imported reactors and fuel. In an accident, an energy park could be the source of a calamitous spread of radioactivity.

Then there is the complex issue of the level of earthquake tolerance that can be factored into the reactor construction without completely skewing the cost-calculus. Whatever the protection, there is no guarantee that Nature will be accommodative and restrict the quaking to the engineered levels. Moreover, there being no such thing as an absolutely quake-proof reactor, safety levels will be dictated by commercial considerations, especially as every little accretion in quake tolerance adds significantly to the total cost.

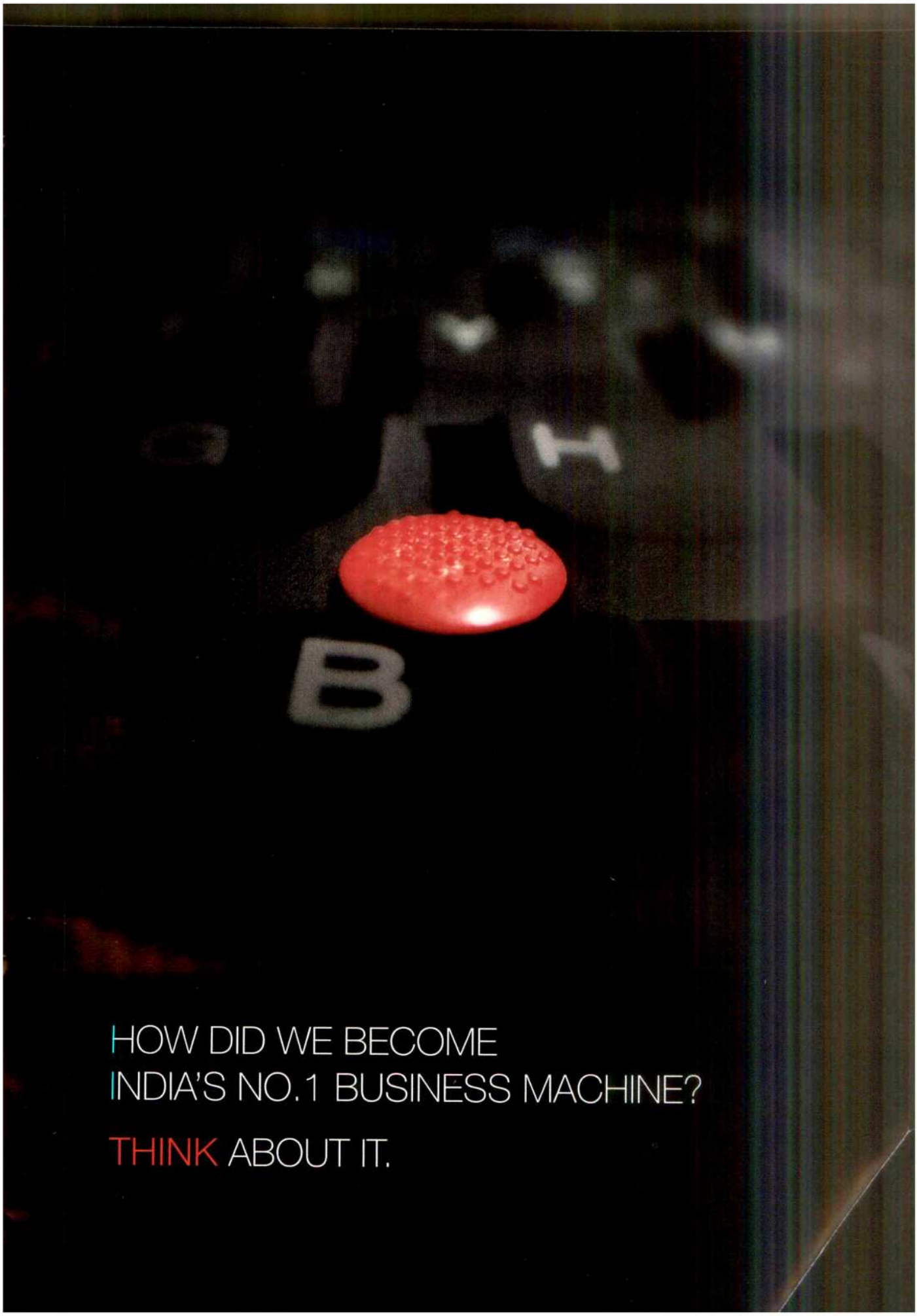
Whatever the figures being bandied about now, after factoring in predictable escalations and only minimal quake protection, imported reactors will be unaffordable – $3 billion to $6 billion a reactor, resulting in an installed cost of nearly ₹35 crore per megawatt compared to the ₹2 crore to ₹3 crore for India's home-grown reactors. Even this cost for Indian reactors is much more than water- and coal-based energy. For an economist to maintain otherwise, as Dr Manmohan Singh has done, is to upend the logic of viability.

The dis-economics of nuclear power today are such that a nuclear energy programme makes sense only if it is mainly national security-driven. This is something the "peaceful atom" conceit of politicians, the disarmament lobby, and the nuclear establishment in the country will not permit. Further, without investing in renewable energy, the Prime Minister's touting of nuclear power as the "green" answer to the energy deficit is ridiculous.

At full tilt, the nuclear option may deliver a mere five per cent plus of the total energy produced in the country in 2050, a small increase from 2.4 per cent in 2010. The policy to import reactors, in the event, seems geared to enriching foreign nuclear suppliers and our commission-seeking political class and to bequeathing India future Fukushimas. ◆

The writer is professor at the Centre for Policy Research, New Delhi, and author most recently of India's Nuclear Policy

Full version at www.businesstoday.in/karnad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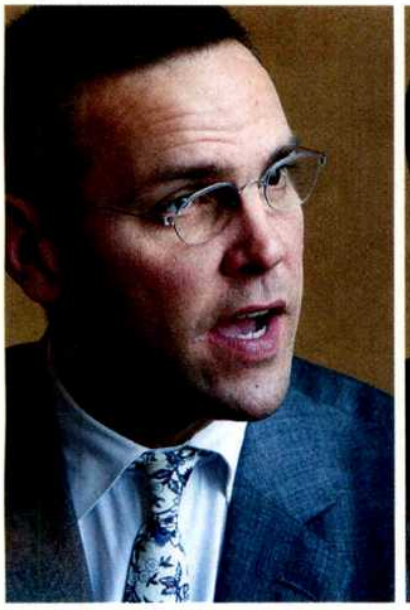


PHOTOGRAPHS BY NISHIKANT GAMRE

The India media industry is hungry for investment and innovation, **but is also held back by restrictions**

At 38, he is not given to mincing words. **James Murdoch,** *Chairman and CEO, Europe and Asia, of the $32.8-billion News Corporation, openly criticised the foreign direct investment norms in India that cap the entry of global players in the news and digital broadcasting space. In an interview with* **Shamni Pande** *he opens up on the group's plans for India. Edited excerpts:*

What is your take on the competitive pressure on the Star channels?

I think people underestimate how competitive it has always been. The company is doing better than before, we have tremendous leadership and you can see real depth of talent... No one can argue about our durability. When we had management change in the middle of this decade, everybody started those entertainment channels. They all thought, okay, Star Plus is finished. It is not finished. We built something that is much more durable than before. We care about it and we have to invest in it.

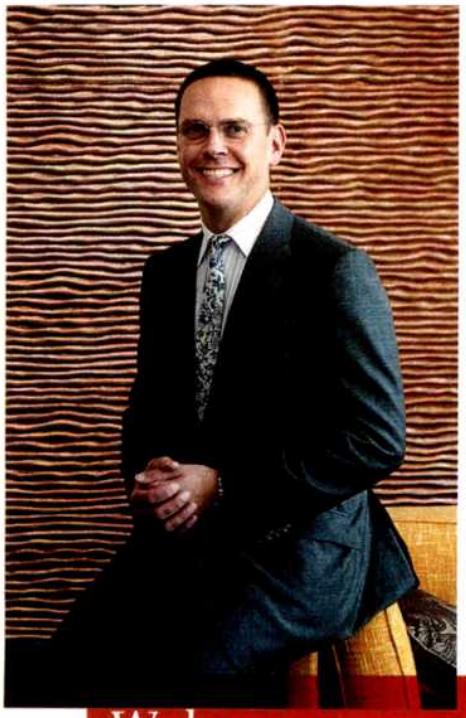
Full transcript of the interview at
www.businesstoday.in/murdoch

What are your priorities?

We have redoubled our focus on India in the last couple of years. It is a standalone centre and is not part of another regional super structure. It is a business that is growing its profits handsomely and is something that we will continue to invest in. This is one of our key priority markets.

But I strongly feel the industry here is just a tiny fraction of where it can actually go with some bold leadership — from business leaders as well as the regulators. If India's economy had a creative sector on the scale relative to overall GDP of Britain's, instead of a $15-billion industry we would be talking about a $120-billion industry. Think about the jobs that come from a vibrant and fast-growing media and entertainment sector. This is an industry hungry for investment and innovation, but also one held back by restrictions.

In the last few years, we have focused on our digital TV business around the world. We continue to invest in Tata Sky, we are potentially in a position of acquiring the rest of



We have seen an enormous amount of inflation in the cost of sports rights, particularly in India

BSkyB in the UK... So, digital TV is a big priority for us. The next is the transformation of our journalism business into digital, which is going really well. We have *Wall Street Journal* digital and iPad editions.

Where would you want to invest or make acquisitions in India?

There are restrictions in the DTH sector. That is a problem because that sector is crying out for investment. Then there are so many restrictions on investments in journalism, digital platforms and infrastructure. I think that is pretty difficult. The more I talk to competitors, they say, we have to finally do this [remove the cap]. Actually it is people resistant to change who have put up the barriers. If we can be less tactical in trying to kill each other and think more on how we can have a deeper pool to swim around in, we are going to be much more successful.

You have Star News (Hindi). Would you look at English news now?

Look, we are big believers in the journalism business. We think it is important for our customers and we think it is important for any market to have a vibrant news sector. We are, in fact, proud to be early starters here with Star News. Prannoy Roy and Star created something very special.

Would you still be open to a dialogue with Prannoy Roy?

I talk to Prannoy all the time. And we have our partner in ABP and we maintain dialogue across the news business. We love the news business and we think it is important. We do not have any immediate plan to precipitate change.

So no immediate plans in news — TV or print?

No. We have so much to do with this digital TV business — building our regional business, investing in Tata Sky, in Star Plus... When we talk about investing, it is not always about buying another company. It is actually about saying that we would rather have a lower margin on Star Plus and make sure that it is the best channel, because in the next five years that can put us in good stead.

That was how we started the channel. No one ever had put that kind of money on a game show, nobody ever thought of getting that kind of talent on the small screen. Now it is a normal thing.

Sports is not a restricted space. Do you plan a bigger play here outside the ESPN tie-up?

We have a 50:50, long-term, partnership with ESPN here. And we have done a great job in the Ind sports TV business. We are prou that partnership. Today, lookin the World Cup you can see how citing and transformative the sp business is and how it gets ev body in. But in all fairness, we h seen an enormous amount of in tion in the cost of sports rig particularly in India, and frankly, are seeing a cricket calendar h that is very full.

What about investing in the ga directly, IPL?

That is a no-no (laughs)... w they say, never say never. We h owned sports teams in the past, we are focused on our broad business.

The paywall has been a positive experience?

Yes. I am trying to think of a m inclusive word than paywall, b can't (laughs). I think it is fair-p subscription products, just like TV products. And I always felt th is absolutely nothing wrong in c ing to an understanding betw equals — the creator and the c tomer. We have always taken view that we would rather h many businesses that addres smaller audience but an audie that has some sort of commitm towards us.

People in India thought we w crazy when we started the affili businesses of subscription for channel businesses. It has been of work and challenges that actu changed the structure of the ind try. But, by being pretty dogged, created a whole new reven stream. Alongside us, others h come through. So, the pay busin is a good business. And the news per business, once you start cha ing for digital products that look a like TV from a business rules persp tive... that is a business we like... like to be able to have an incentiv innovate for our customers over a over again. ◆

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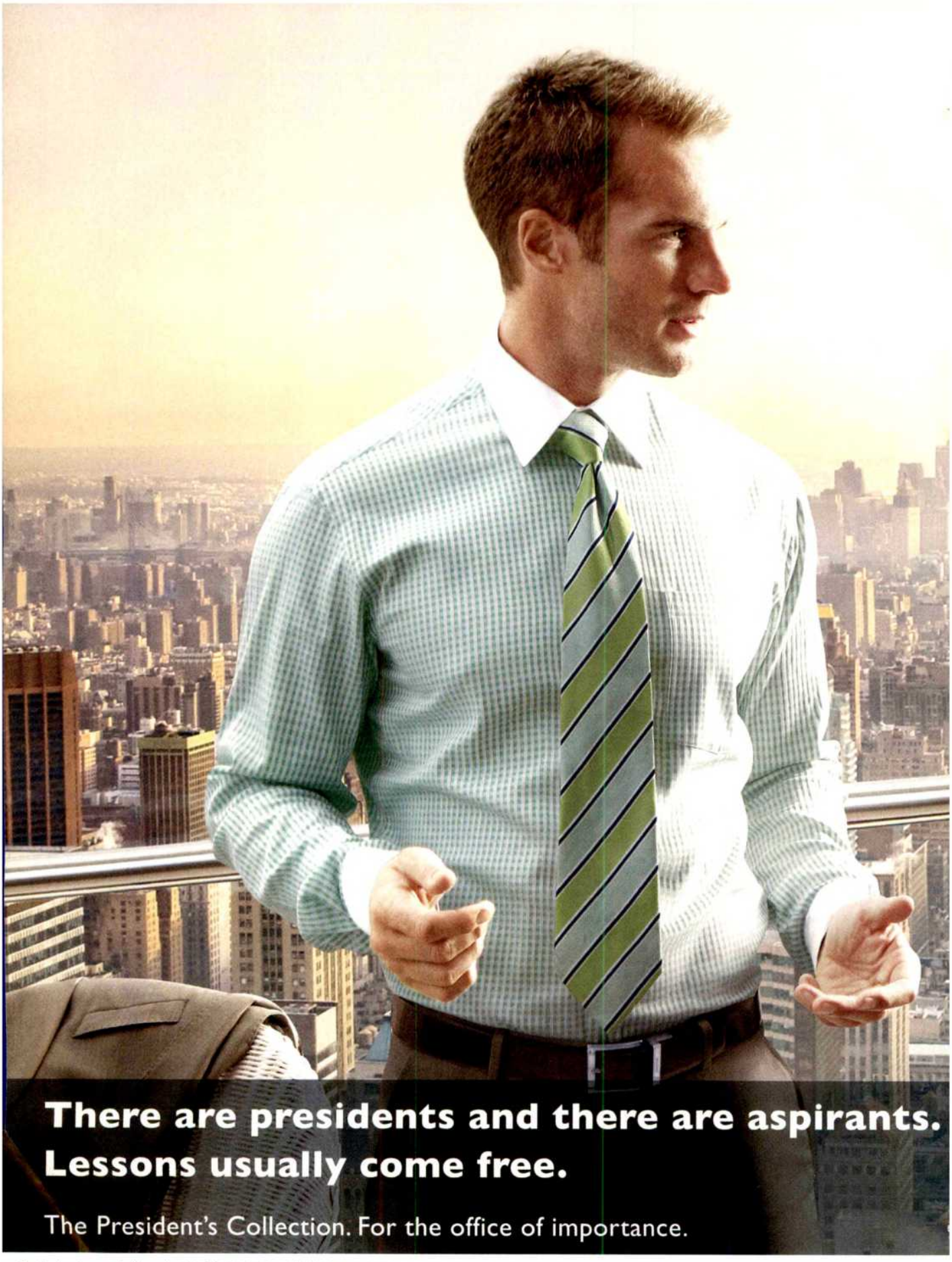

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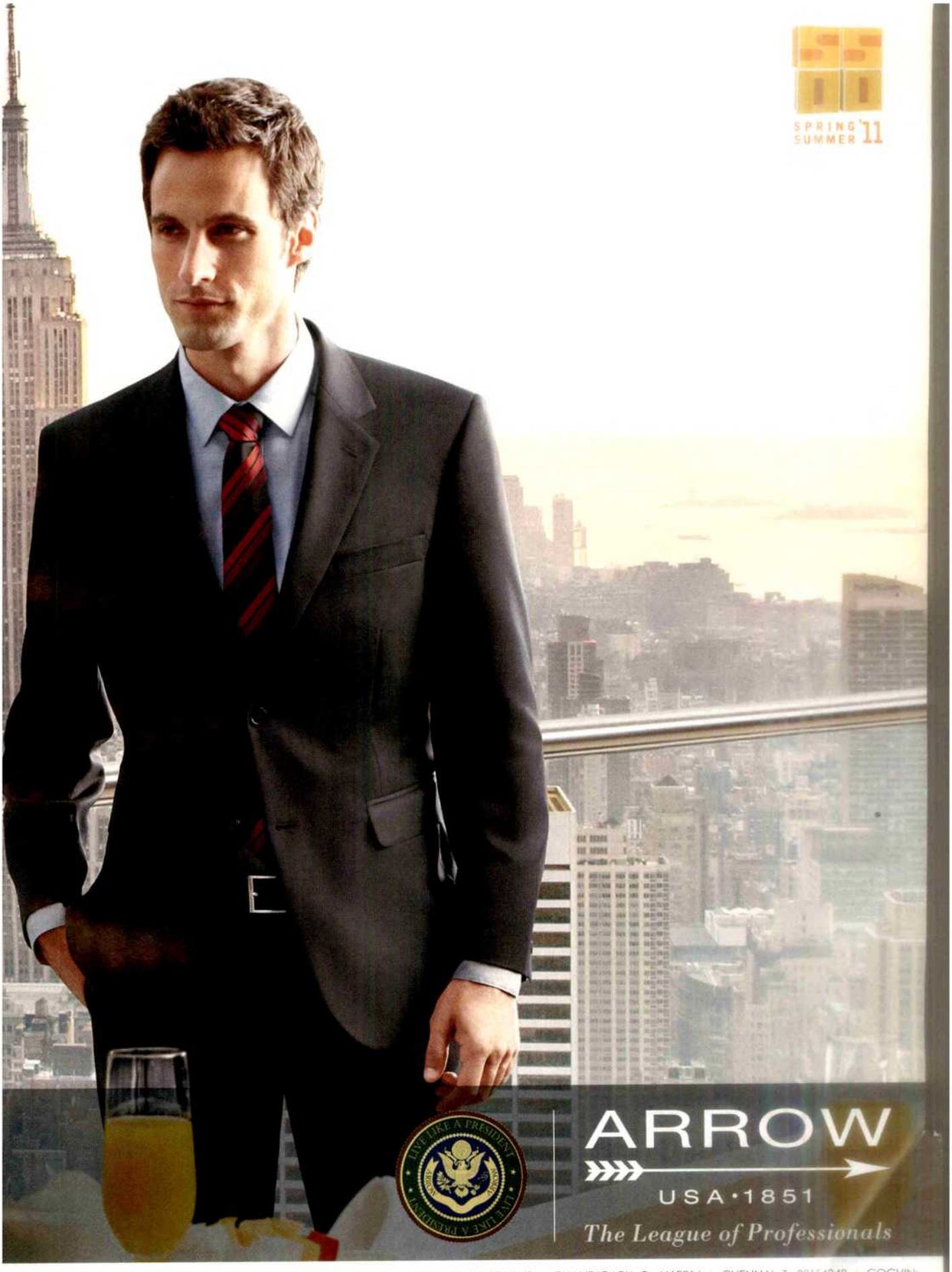

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RAGHU RAI/www.indiatodayimages.com

In the world's worst industrial disaster, toxic methyl isocyanate gas leaks from Union Carbide India Ltd's pesticide plant in Bhopal, killing thousands and affecting the health of over 500,000 more

Supreme Court facilitates out-of-court settlement between Union Carbide and the government, by which UCC pays $470 million as compensation

50.9%

UCC completes the sale of its 50.9 per cent stake in UCIL to McLeod Russel India of Calcutta

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Indian government claims $3.3 billion from Union Carbide Corporation in a US court

Past Horrific, Present Tense

The re-opening of the Bhopal case has industry bodies worried. By MANU KAUSHIK

The Supreme Court decision on February 28 to issue notices to Union Carbide Corporation, Dow Chemical and two others, on a curative petition filed by the Indian government seeking higher compensation for the Bhopal gas tragedy victims, has not gone down well with foreign investors. Many industry experts also fear the government's drastic change of stance on the case could affect the country's investment climate.

Ron Somers, President of the US-India Business Council, says the move could send wrong signals to foreign investors. Already both FDI and FII inflows have slowed following both the global economic recovery — which has prompted foreign capital to remain in Western markets — and investors' worries over the political scams lately unearthed in India. "Competition for capital is going to be fierce. For GDP to grow at more than eight per cent, India requires around $4.5 trillion in the next five years." The bogey of slowing foreign investment may be exaggerated but Somers may still have a point.

In February 1989, the Indian government had agreed to a Supreme Court-brokered out-of-court settlement of the Bhopal victims' compensation case, providing them a sum of $470 million (₹750 crore at the time). But the curative petition it filed last August — following which the apex court sent out notices — seeks a total compensation of ₹7,844 crore.

Says Venu Srinivasan, Chairman of TVS Motors: "The apex court had agreed when the last time settlement was done. To reopen that will create uncertainty." Srinivasan, who stepped down as CII chief in April 2010, is also critical of the government's overall approach. "In India,

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SEP 1996 — Supreme Court dilutes charges against Indian officials of UCIL from culpable homicide to criminal negligence on grounds that the principal responsibility lies with UCC rather than UCIL officials

FEB 2001 — US-based Dow Chemical Company, the world's second largest chemical company, buys out UCC, but distances itself from liabilities related to UCIL in Bhopal

JUN 2010 — A Bhopal court sentences eight accused to two years in jail

AUG 2010 — PIL filed seeking harsher punishments for the accused

FEB 2011 — Supreme Court issues notices to UCC, Dow Chemicals and McLeod Russel India after the government files a curative petition seeking higher compensation for the gas victims. Dow and UCC oppose petition

there's never a red or a green light; it's always a yellow light," he says.

Somers stresses the need for an industrial accident policy that can help companies quantify liabilities and ensure faster and fair settlement.

The curative petition was filed by the Centre after nationwide outrage over the trial court judgment of June 2010, which imposed a punishment of just two years on the eight people — senior officials at Union Carbide India Ltd, or UCIL — held responsible for the Bhopal disaster on the night of December 3, 1984. On that night, methyl isocyanate gas leaked from UCIL's pesticides plant killing over 3,000 people instantly and affecting the health of another 500,000. Since then UCIL had been bought over by McLeod Russel in 1994 and UCC by Dow Chemicals in 2001.

UCIL, renamed Eveready Industries since, is 40.55 per cent owned by the Khaitan family, promoters of McLeod Russel, and the rest is held by institutional and public shareholders, according to its latest annual report.

Keeping with the Centre's new approach, the CBI too moved a Delhi court on March 22 for a renewed mandate to get Warren Anderson, UCC Chairman when the disaster occurred, extradited from the US.

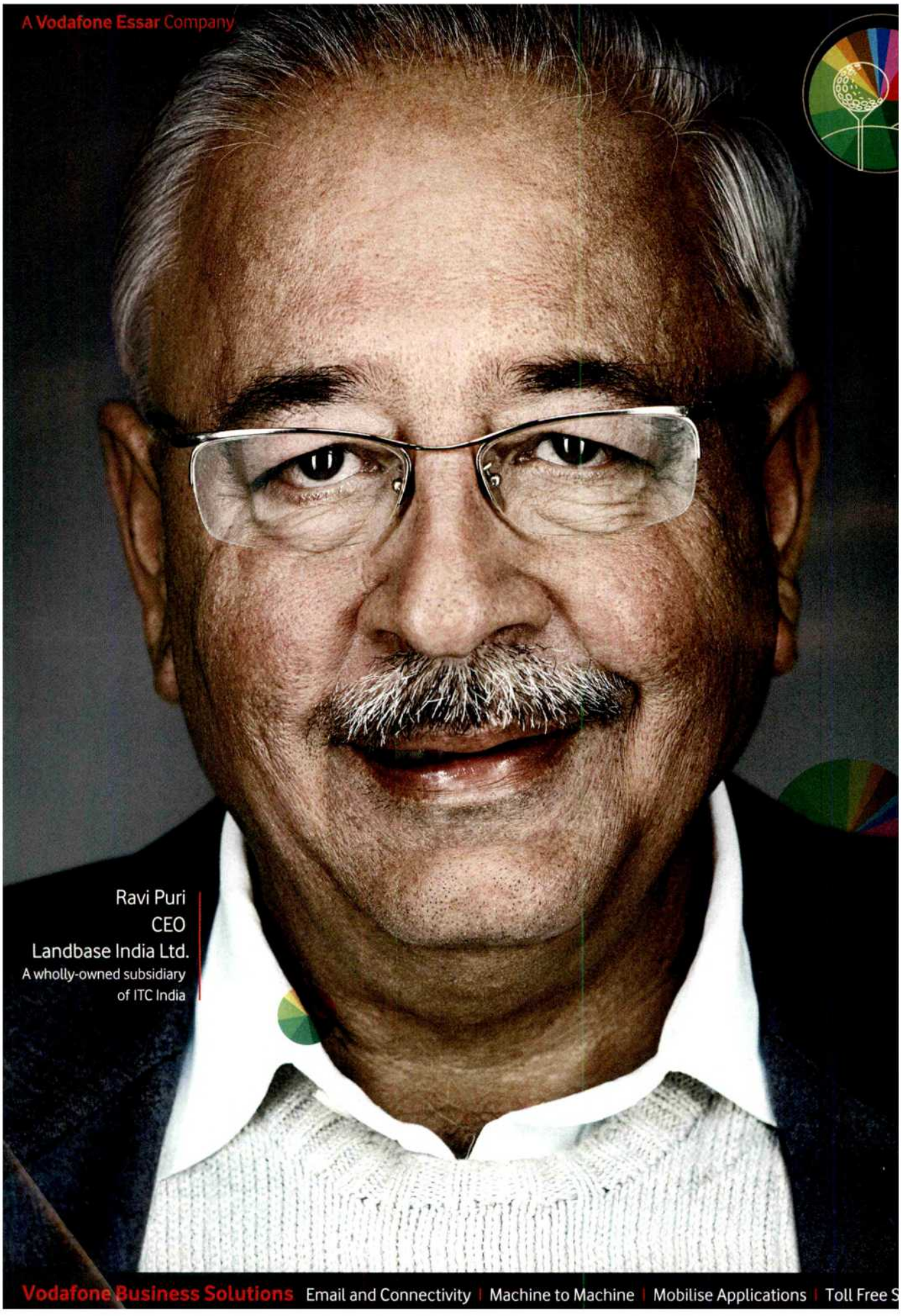
Dow's consistent position is that it has nothing to do with the Bhopal tragedy. It maintains the apex court made no mistake in agreeing to (and subsequently re-approving) the 1989 settlement. "The attempt to hold Dow responsible is based on the government's erroneous belief that Dow and UCC are the same company," says Dow spokesperson Scot Wheeler.

"Re-opening the case creates an unstable business environment. The government is reeling under various scams; it's the last thing it could have done"

Ron Somers, President, US-India Business Council

Rights activists say the reopening of the case is entirely justified as the compensation paid in 1989 was grossly inadequate. Karuna Nundy, counsel for the Bhopal victims, says even the curative petition does not capture the sheer magnitude of the damage caused. "Government figures put the death toll at around 5,300, whereas a study says 25,000 people had died from the gas exposure till 1994," she says.

India certainly needs more stringent norms for dealing with industrial disasters — more so after the Fukushima accident in Japan in March — without which instances like the Bhopal case could rear in Indian courts. ◆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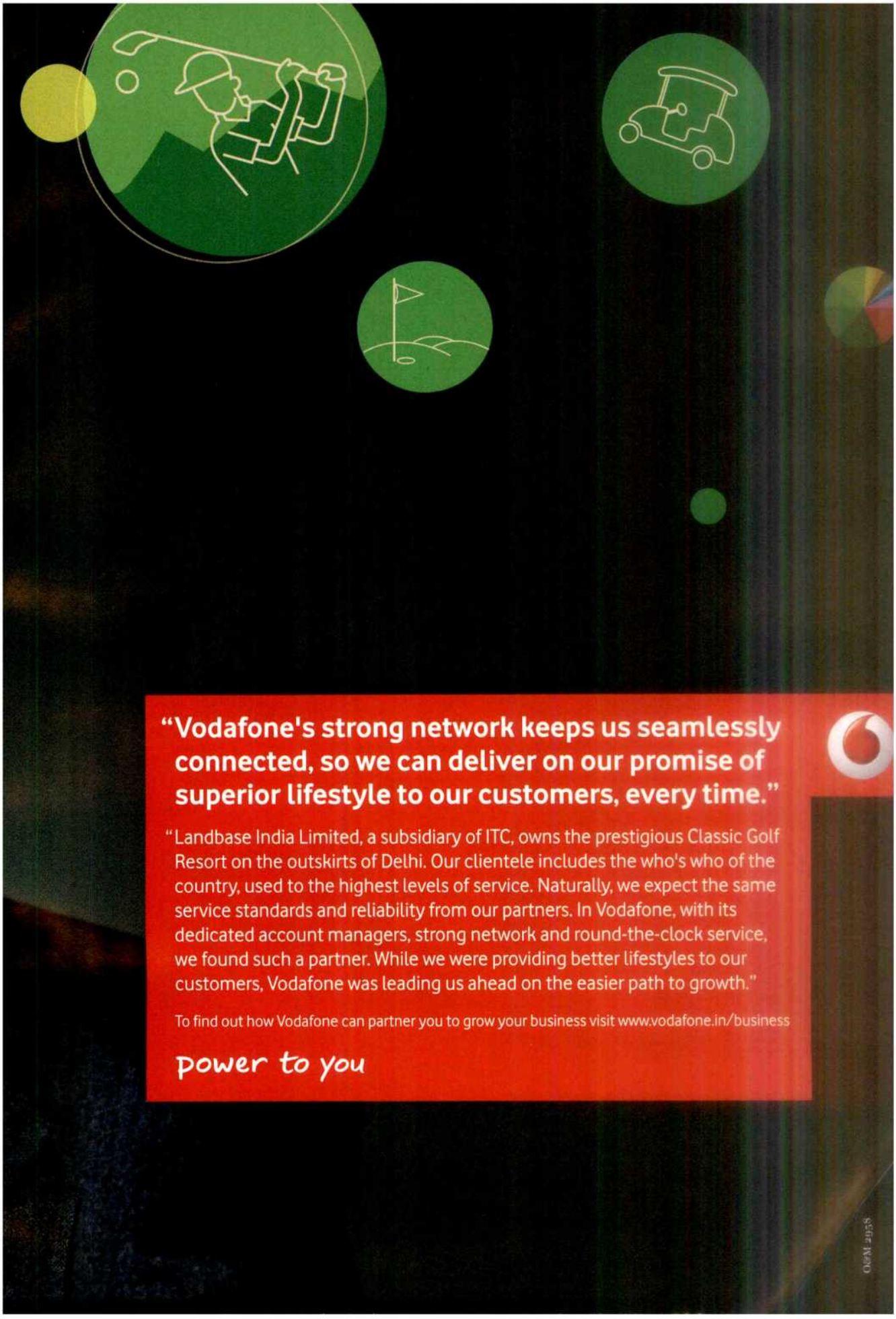
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NEW BUSINESS FAMILIES

By ANAND ADHIKARI

Thirteen years ago, *Business Today* compiled a list of the country's 50 top business families. Were a similar list to be compiled today, it would include a host of names that had not been heard of then. The Mittals of Bharti Group, the Raos of GMR Group, the GVK Group's Reddys, Biyanis of Future Group, Vedanta's Agarwals...

In this issue, we have put together a list of first generation entrepreneurs who have not only made good in the post-reforms period, but have also drawn one or more members of their immediate family into the business. The idea is not just to look at entrepreneurs themselves but also their families, who will likely endure far beyond the individual.

There are many who think inducting family members into a business comes at the cost of meritocracy but there are others, several featured in the pages that follow, who insist that 'business families' and 'professionalism' are not necessarily polar opposites. They believe they have the best of both worlds by ensuring first, that the family members they induct in senior positions are both qualified and experienced, and second, by employing professionals alongside who are given substantial decision making powers.

Indeed, working in the new, emerging sectors where most of the new business families have made their mark — telecom, power, roads and ports, all of which were opened to private players only after liberalisation — calls for deep domain knowledge, which often only professionals possess. Some of the professionals employed by successful new business families have themselves become household names, so crucial are they to these enterprises. Anil Agarwal, for instance, has Tarun Jain, Sunil Mittal has Manoj Kohli, and Gautam Adani has Malay Mahadeva. "Mahadeva helped us build the Mundra port when we had no idea of how to build one," Adani says candidly.

So what do the new business families have in common? They all prospered in a new era that left behind the three per cent Hindu rate of growth, the Licence Raj and old ways of doing business. "They all pounced on the opportunities provided by economic liberalisation," says K.Ramachandran, a professor at Indian School of Business, Hyderabad. Plus, they expanded super-quick.

Certainly the pace at which the Indian economy has expanded in the 1990s and the first decade of the 21st century, has helped. But attitudinal change has been equally responsible. "The ambitions and aspirations of the new breed of entrepreneurs are high even by global standards," says Rajiv Memani, country managing partner at consultancy firm Ernst & Young India. Confidence and risk appetite are high, as well. Adds Chintan Parekh, a friend of Adani, who features in our list: "Pre-reform entrepreneurship was licence driven, post reforms it is vision driven."

It was probably this vision that impelled many middle class professionals, whose forefathers had never looked beyond a salaried job, to take to business. Elder Group's Jagdish Saxena quit a cushy job as a drugmaker's managing director to start his own pharmaceutical unit. Rana Kapoor, who set up YES Bank, prepared for years to start his own venture, even as he held top jobs in foreign banks.

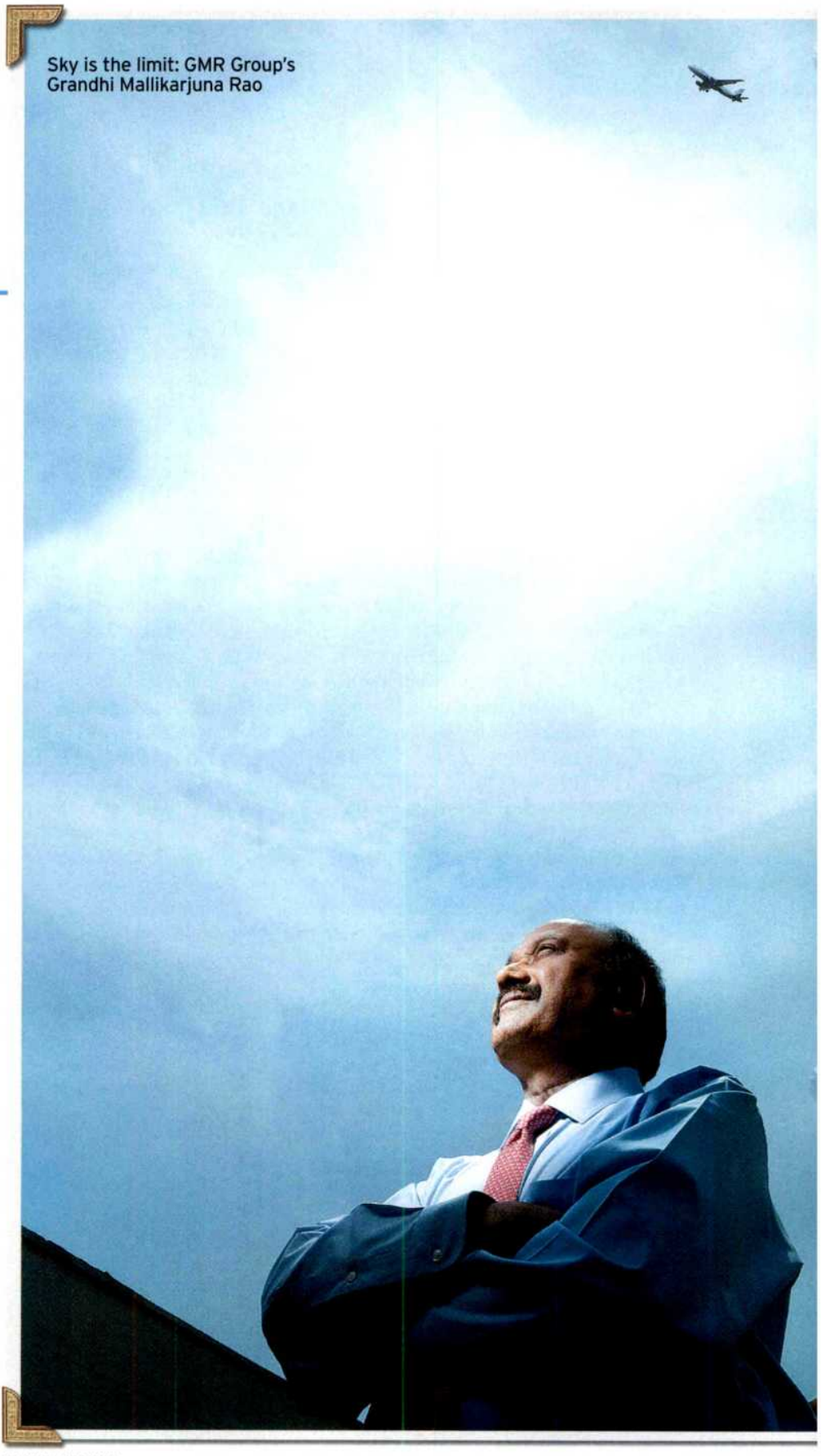
The rapid growth of the capital market since the 1990s also helped the new entrepreneurs rise. "These are all men who understand the market's dynamics and have focused very intensely on creating shareholders wealth," says Memani. That, in turn, brought in high standards of governance.

Challenges remain for the new business families in the years to come.

Rapidly turning technology cycles in almost every field have increased business risk and, in turn, the mortality rate of business families. As have new business models and foreign competitors with deep pockets. There is also the succession challenge, especially when more than one second generation family member is involved in the business. "Today, the family looks closely aligned, but you never know what will happen when the next generation takes charge," says a professional who works with one of the new business families.

Turn the page to read the stories of India's new business dynasties.

For more on India's new business families, go to
www.businesstoday.in/biz-fam



Sky is the limit: GMR Group's Grandhi Mallikarjuna Rao

VIVAN MEHRA

GMR GROUP

Founder: Grandhi Mallikarjuna Rao, 60
Son-in-law: Srinivas Bommidala, Chairman, Urban Infrastructure and Highways
Sons: G.B.S. Raju, Chairman, Corporate and International Business, Kiran K. Grandhi, Chairman, Airports

Why I Did It: "There was an opportunity."

Total Turnover: ₹4,560 crore (₹25,000 crore assets) in 2009/10

Main Companies: GMR Infrastructure GMR Industries

Family Infrastructure

G.M. Rao cements a structure around his business and family to make sure they stay together even after he is gone. By JOSEY PULIYENTHURUTHEL

By revenues and scale, the companies of G.M. Rao, 60, may lag behind those of other businessmen who have come out tops in the last two decades. But there is no denying his family's influence — power and contacts, to be less politically correct — in India.

Whispers in New Delhi's corridors of power claim Rao — after whom the GMR Group takes its name — has connections on par with the most networked businessman to have lived in India, Dhirubhai Ambani. Difficult as it is to validate that comparison, it is common knowledge among air traffic controllers that GMR-owned jets ferry the most powerful in the land.

But, to credit GMR's achievements over the past four decades or so to just his relationships would be completely erroneous. The group, today with assets of ₹25,000 crore in operation and ₹27,500 under construction (revenues around ₹4,560 crore in 2009/10), has had several other things working for it: focused and nose-to-the-grind execution, calling bets on high growth businesses right, and blending crack professionals with hard-nosed family members into an A-team.

A team that completes projects on time and shipshape. Terminal 3 at the Delhi airport, which GMR runs on a 30-year contract, is a fine example, says an aerospace expert. "Building the 34 million capacity terminal in a record 37 months time sets a high standard for its peers," says Amber Dubey, director for aerospace and defence at consultancy firm KPMG.

Rao's construction roots are in the public works department, or PWD, of his home state, Andhra Pradesh. (He grew up in Rajam village, Srikakulam district, some 120 km northeast of Vishakhapatnam.) After graduating in mechanical engineering from Andhra University, where he was a student leader, Rao worked briefly at a paper mill in 1973 before working for a PWD executive engineer.

"My life can be split into five parts: student leader, trader, manufacturer, banker and infrastructure developer," says Rao. He set up his first manufacturing operation — a jute unit in Rajam — in 1978, and over the Licence Raj years set up 28 units in steel rolling, ferro alloys, sugar and alcohol, among others. But prohibition in Andhra Pradesh under the N.T. Rama Rao government in 1983 forced him to look outside the state: a search that ended with the family controlling a bank (today, ING Vysya), the country's second private power generation company, several road projects and, eventually, airports.

Rao, who likes to model his family on the best practices of European business families ("it has 35 families who have lasted more than 300 years"), has had for several years a family constitution in place. Rao chairs a family council that counts son-in-law Srinivas Bommidala, and sons Kiran K. Grandhi and G.B.S. Raju as members. Their motto: run the family like a business, run the business like a family.

The family members are involved in the business — Bommidala runs the group's highways and urban infrastructure business, Grandhi airports, and Raju international business — but "in course of time, they won't be in operations," says Rao. After he retires in 10 years, the council will either work as a three-person unit or rotate chairmanship.

The family council meets regularly to sort out even the smallest of issues and often has the women members of the family participating, says Rao. "Without family governance, the circle is not complete; only then, real corporate governance will come," says Rao.

So strong are the rules of the family constitution that Rao's sons and son-in-law refused to be photographed for this story, saying that they wanted the focus to be firmly on the group. Still, if you want to see the family and people behind GMR, visit www.bit.ly/gmrpic. Do so before the family council decides to take it down. ◆

The Adanis: (From left) Pranav, Priti, Rajesh, Gautam and Karan

UMESH GOSWAMI

Power Point

Gautam Adani is building an integrated operation for his group in power, oil and gas, and agriculture. By ANAND ADHIKARI

ADANI GROUP

Founder: Gautam Shantilal Adani, 48
Wife: Priti manages Adani Foundation
Son: Karan handles the ports business
Brother: Rajesh oversees the trading business
Nephew: Pranav looks after the agri business

Total Turnover: ₹28,000 crore in 2009/10

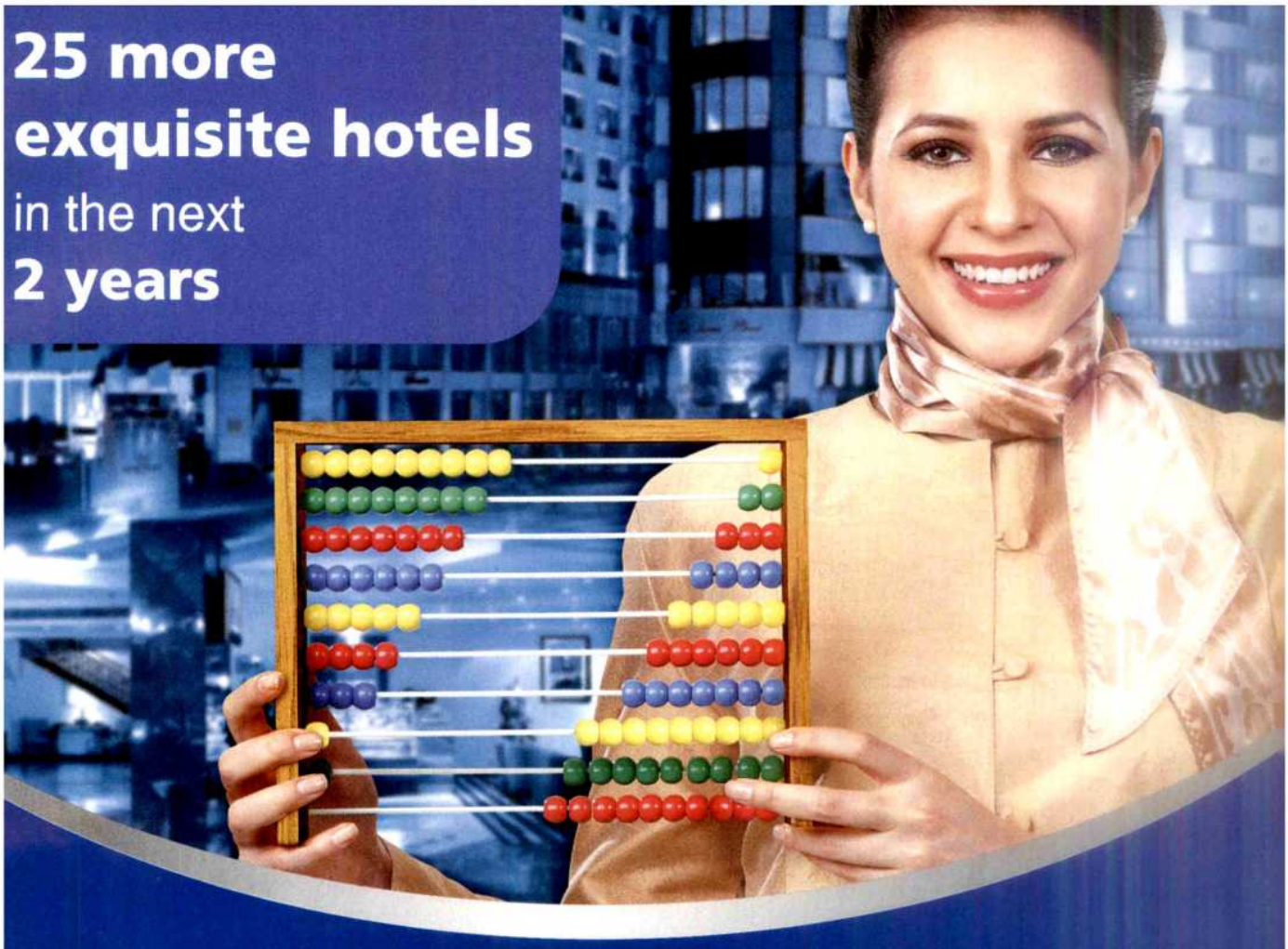
Main Companies: Adani Enterprises, Adani Power, Adani Wilmer, and Mundra Port and SEZ

In August last year, Gautam Shantilal Adani, the 48-year-old chairman of Adani Group, was vacationing in London with his wife and two sons when he received a call from one of his senior executives. The company was in the final stages of negotiations with Australia-based Linc Energy for its coal assets and Adani's assent was crucial. The call lasted just a few minutes. The terse message to the caller: "Go ahead."

It was one of the largest deals for a coal mine by an Indian group — Adani Enterprises paid ₹12,600 crore in cash and royalty for the mine. But the Adani Group founder never sat for the negotiations nor met Linc Energy's negotiators. "Gautambhai was very much in the loop, but never bothered to intervene," says a top executive, pointing out that Adani always supports and trusts his core team once he is convinced about a project or an idea.

Adani's business acumen has ensured a meteoric rise for his group over the past couple of decades. The corporate journey of this college dropout has been nothing short of spectacular — from a small-time diamond trader in the eighties to running a ₹3,000-crore trading house by the turn of the century to a ₹28,000-crore conglomerate with interests in ports, mining, power generation, oil and gas exploration and distribution, and real estate today.

In the early 1980s, a teenaged Adani came to Mumbai from Ahmedabad to dabble in the diamond business. "I was given



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freedom by my family to pursue my ambitions," he says. The young Adani initially honed his skills as a diamond sorter while observing how the trade was being carried out. Soon he graduated to diamond trading.

In 1988, he started Adani Exports, a partnership trading firm in Ahmedabad dealing in agricultural products, dye intermediates and plastic products, with a seed capital of ₹5 lakh. The business flourished, and as the group expanded at a scorching pace, Adani's family joined the business.

Rajesh, his 46-year-old brother is today Managing Director of Adani Enterprises and Adani Power. Nephew Pranav joined the family business after completing his business management from Boston University and is MD of Adani Wilmer, the group's agri business. Son Karan is now looking after ports and another nephew will join the business soon. "It helps to have family members as there is better communication and commitment is assured," says Adani.

His vision is to have an integrated operation for his group — from coal mining to power generation. The group today mines the coal, transports it by rail or water using its own tracks, jetty and vessels, and unloads it at its own port. "There is no other integrated power company in India," says Ravi Sharma, CEO of Adani Power.

In the oil and gas business, where he has entered the exploration and distribution of gas, Adani plans to scale up operations and also establish forward linkages by setting up an LNG terminal and a gas pipeline network. "We will look at operating the oil and gas business overseas. That will cut down six to seven years of gestation period," says Atul Sathe, CEO of Oil and Gas at Adani Group.

In ports, too, the group has big plans. Apart from the Mundra port, it is expanding its port presence in Goa, Hazira and Dahej. "We are looking at more ports on the eastern coast of India," says B. Ravi, Chief Financial Officer. The group is also scouting for ports overseas, especially in Australia where they have recently bought coal mines.

Shipping was the missing component in the group's businesses but all that may change soon. The group today has to charter between 60 and 70 ships for its trading operations. "We plan to buy 20 ships by 2020. Two are already sailing," informs Adani.

Realty is another focus area. The group is implementing the biggest integrated township project in Ahmedabad spread over 60 acres. He also has plans for a private airport, water management and is also developing a special economic zone near Mundra port.

To pull off his ambitious plans, Adani has realised the imperative of building a core team of professionals to assist the family. Today, the group is fast moving from being largely family run to being more professionally driven. All his businesses from power, port and oil and gas exploration to agriculture are manned by professionals. Adani scouts for professionals who are adept leaders even if they don't have domain knowledge. Adani, for instance, hired Sharma, a telecom professional, to head his group's power initiatives. The first set of professionals who joined the group had a motley background — from finance, commodity trading to human resources.

Adani's message to his team today is simple: "We should be the best in whatever we do." He plans to expand his core team to implement his vision 2020 — achieving 200 million metric tonnes of cargo, 20,000 MW of power generation and 200 million metric tones of coal mining. And given his track record, it is difficult not to take him seriously. ◆

"Today, the Adani Group is fast moving from being largely family run to being more professionally driven."

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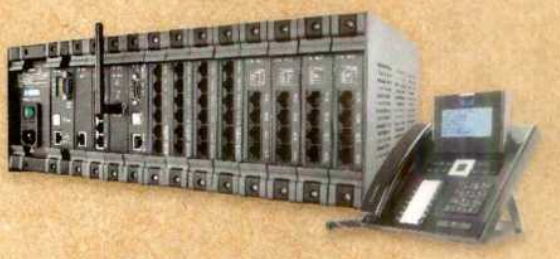

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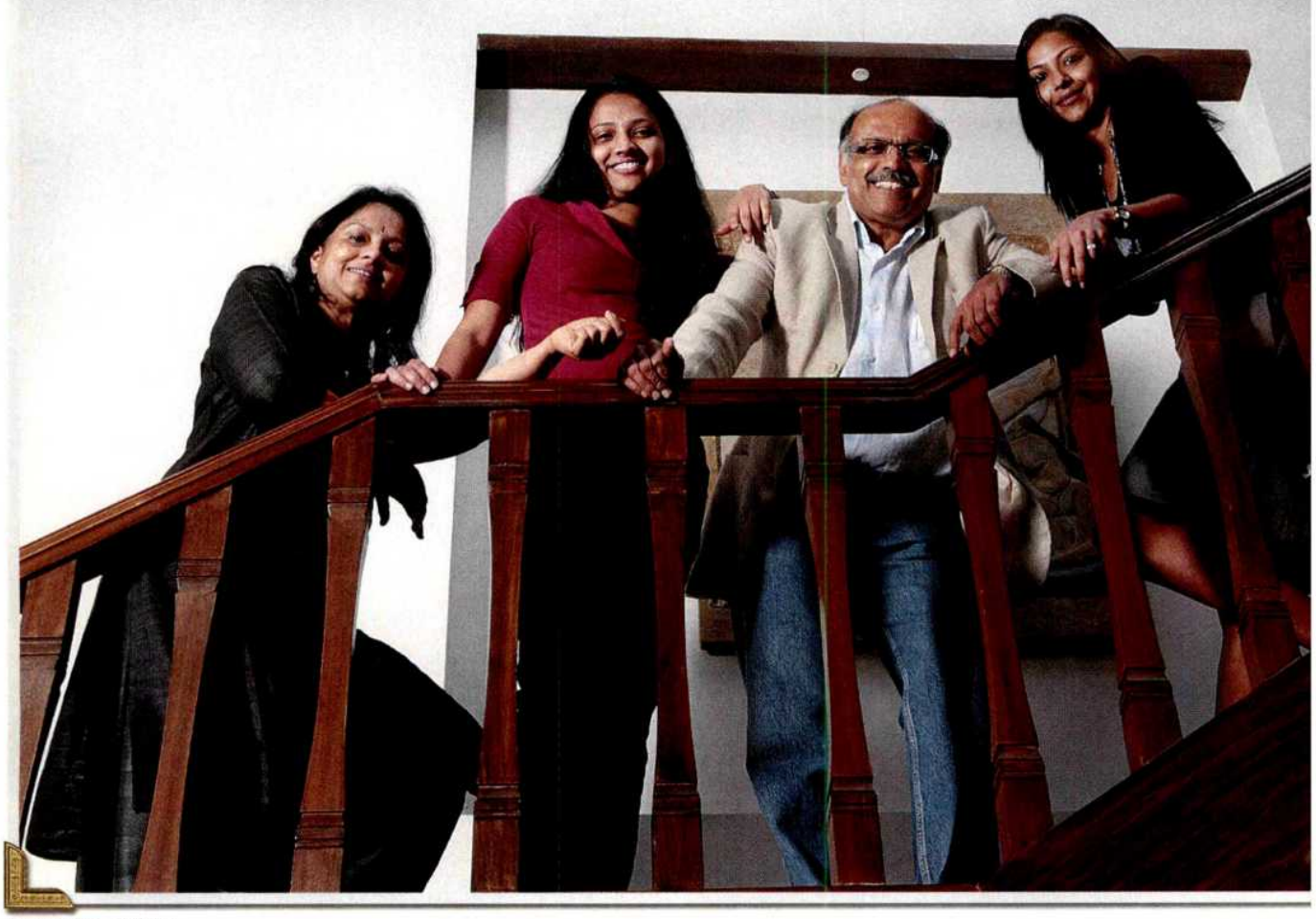
The Gopinaths: (From left) Bhargavi, Krithika, Capt. Gopi and Pallavi



DEEPAK G. PAWAR

Low-cost Hero

Capt. G.R. Gopinath, who gave the country its first budget airline, has moved into express logistics. By K.R. BALASUBRAMANYAM

When Capt. G.R. Gopinath set out to launch Deccan Aviation in the mid-1990s, he stepped into a market where competition was almost nil. The only other air charter company, Pawan Hans, as a government-owned entity, had priorities other than profit. There was also a large pool of retired but young defence pilots and engineers for him to pick from. Captain Gopi, as he is widely known, felt the moment was auspicious. "My God! This is a combustible mix. One just cannot go wrong," he told himself.

What Capt. Gopi began in 1997 along with friend Capt. K.J. Samuel with a single leased helicopter — operating out of a small office on Bangalore's Infantry Road — has since grown into a mature business with a fleet of 13 choppers and three aircraft. His subsequent airline venture, Air Deccan, India's first low-cost carrier, may have now passed into history, but it did show how the low-cost model was the way forward for the airline business. Capt. Gopi's new start-up, Deccan 360, is pinning similar hopes on the growth potential India holds in the express logistics space.

When he roped in Mukesh Ambani as a strategic investor in April last year, it was evident that he had decided not to repeat the mistakes that forced him to ultimately give up on Air Deccan. Later, he also tweaked his management structure to demarcate the line between the owners and the managers. Deccan 360's CEO reports to the company's board, not to him.

"I have put in place a good corporate governance structure and have distanced myself from the management," says Gopinath, who is its chairman.

The ex-Army officer's entry into aviation came after he had tried his hand at a series of business ventures in his native district of Hassan in Karnataka. "I reared cattle to sell milk, got in poultry farming, silkworm farming, then turned a motorcycle dealer, an Udupi hotel owner, a stockbroker, irrigation equipment dealer, an agriculture consultant, a politician and finally an aviation entrepreneur — struggling, falling, rising, falling, rising again and taking off," he writes in *Simply Fly*, his autobiography.

What is less known, perhaps, about Gopinath is that his wife is an equally successful entrepreneur, though on a much smaller scale. Bhargavi Gopinath's business, Bun World, a bakery in the upscale Malleshwaram neighbourhood of Bangalore, is both popular and profitable. Gopinath claims credit for the idea. He thought she possessed the skills to run a bakery, a business many of Gopinath's relatives were already in. As he waited for his aviation licence in the mid-1990s, he asked her to go through a short-term course in baking and later another year-long one at VB Bakery, a landmark in Bangalore, owned by his brother-in-law. "I would have thought about expanding my business, but my daughters are not interested in joining me, as of now," she says.

Both their daughters have chosen to join their father instead. Pallavi, 29, who is an MBA in aerospace from Toulouse in France, looks after business development at Deccan 360. Krithika, 23, is employed at Deccan Charters Ltd. "(Eventually) my children will own my shares, but not the management," Gopinath says. Pallavi, however, does not think she will become an entrepreneur ever.

Having placed his businesses in the hands of his trusted CEOs, Gopinath uses his time to sew up big plans and give big surprises.

The Gopinath couple also often host Indian classical music concerts in their grand old bungalow next to Vijay Mallya's residence in Bangalore. ◆

DECCAN 360/ DECCAN CHARTERS LTD

Founder:
Capt. G.R. Gopinath, 59
Wife: Bhargavi runs a bakery venture, Bun World
Daughters: Pallavi works for Deccan 360. Krithika is with Deccan Charters

Why I Did It:
"There was not a single private helicopter company, while there were thousands of pilots and engineers who had retired from the defence forces, who were still young, capable but had no jobs. The country was on the path to reforms and it suddenly struck me: My God, this is a combustible mix of factors. One cannot go wrong."

Total Turnover: ₹375 *crore* in 2009/10

The Kapoors: (From left) Radha, Rana, Roshini, Bindu and Raakhe

NISHIKANT GAMRE

The Rana of Banking

Rana Kapoor gave up a top notch banker's job to set up his own bank. By ANAND ADHIKARI

YES BANK

Founder: Rana Kapoor, 53
Wife: Bindu
Daughters: Raakhe works with YES Bank, Radha runs her own business, Dolt Creations, Roshini is studying

Why I Did It: "I was very restless. I wanted to start something entrepreneurial."

Total Turnover: ₹2,369 crore in 2009/10

It was the high noon of liberalisation. The dismantling of the Licence Raj had unleashed a new wave of energy. Mumbai banker Rana Raj Kapoor was restless. Having worked with Bank of America for 15 years, the last two spent overseeing its lucrative wholesale banking business, Kapoor wanted to break out of the executive mould and turn entrepreneur.

In mid-1995, Kapoor, a Delhi University graduate with an MBA from Rutgers University, flew to the United States to make a presentation to the top brass of an American insurance giant. "My plan was to set up an NBFC, or a non-banking financial company, in India," he says. The insurer hinted it would be willing to take a majority stake in the proposed NBFC with a $5 million (₹22.5 crore) capital. On his return to India, an excited Kapoor shared his plan with his brother-in-law Ashok Kapur, then Country Head of ABN AMRO Bank. Though Kapur liked the plan, he felt the proposed NBFC would be too small. He convinced Kapoor to angle for a bigger NBFC, and introduced him to friends at the Dutch financial services player Rabobank NV.

Soon Kapoor quit Bank of America and joined ANZ Grindlays Investment Bank as Country Head in India. During his two years at Grindlays, Kapoor held hush-hush meetings with Rabobank representatives. "Finally, we locked ourselves in a hotel room and hammered out an agreement," says Kapoor, recalling how he, Kapur and Harkirat Singh,

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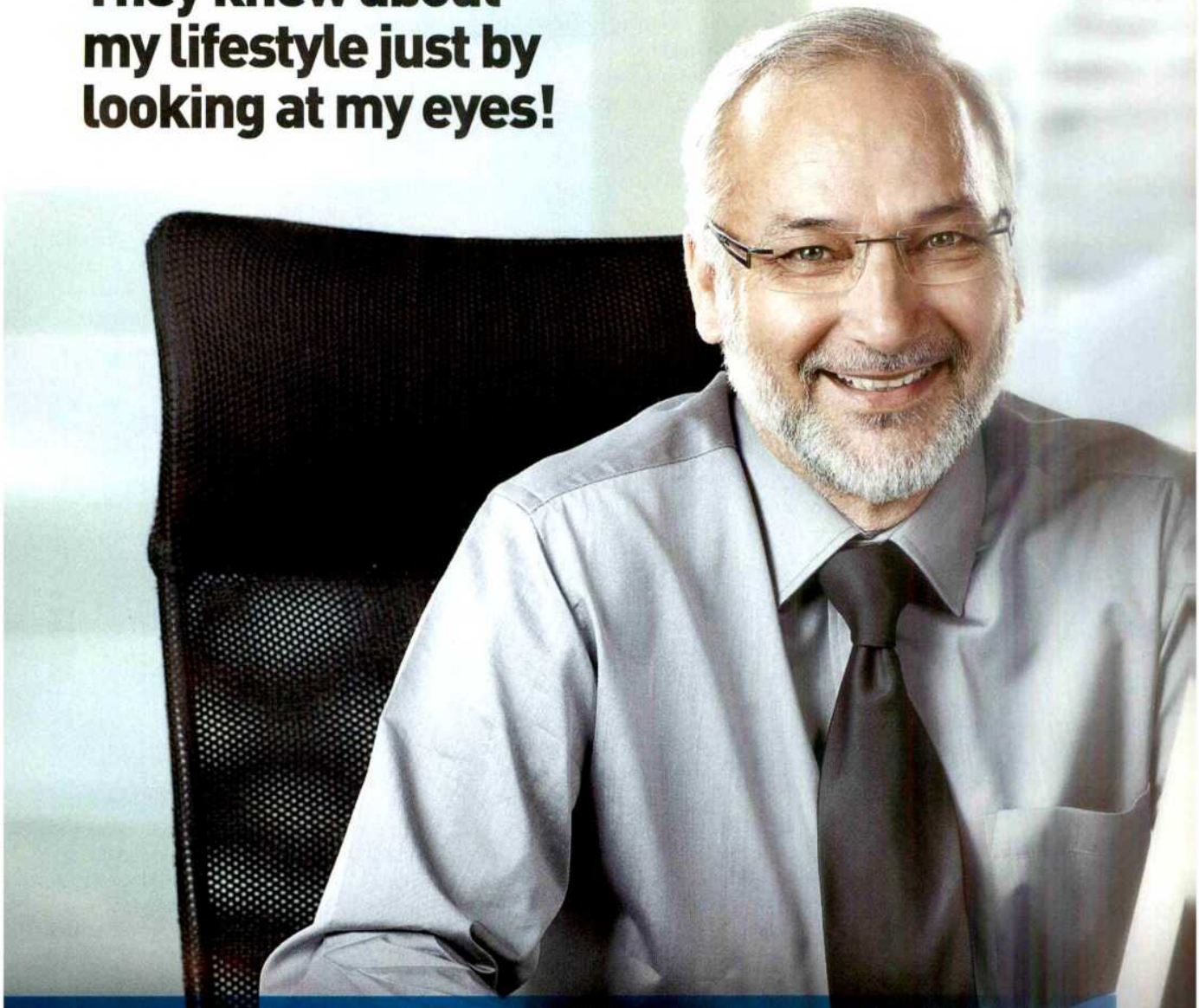

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former Country Head of Deutsche Bank, sealed the deal for a 25 per cent stake in an NBFC, Rabo India Finance, to be set up in partnership with Rabobank.

Even though the talks had coincided with the South-East Asian currency crisis of 1997, an undeterred Kapoor went ahead and set up the NBFC in early 1998. "I believe it is always a good idea to start in times of adversity," says Rana, adding: "It makes the entrepreneurial journey much more challenging."

The challenges did not end with the setting up of the NBFC. "I consumed whatever I had saved in my 17 years of service," he says. Initially, no money was coming in, and he had three young daughters to raise.

By 2000, Kapoor had begun eyeing a banking licence. But he had trouble raising the seed capital for the bank. "We made the rounds of private equity funds to invest in our venture," he says. Then, barely a year after the Reserve Bank of India gave an "in principle" nod to their greenfield banking venture, YES Bank, one partner, Singh walked out, citing differences, in April 2003.

After the RBI granted a formal approval to YES Bank in 2004, the next big challenge was doing a successful initial public offering, or IPO, to raise funds from the market. Here, Kapoor succeeded beyond market expectations, with his bank netting ₹315 crore with the issue oversubscribed 30 times. "The YES Bank brand was actually born with the IPO," says Kapoor,

"We initially decided to do only corporate banking where we didn't need a branch network, as against retail banking," he says. Today, YES Bank has revenues of ₹2,369 crore and a market capitalisation of ₹9,500 crore as of March 31 this year.

But now Kapoor is working hard to build the bank's retail side as well. YES Bank currently has 185 retail branches across the country and is in the process of opening many more. "We are entering a new stratosphere," he says of the bank's transformation plan for the next five years after which he would like his bank's portfolio to consist of 40 per cent wholesale banking, 30 per cent mid-corporate commercial banking with small and medium enterprises, and retail banking accounting for the rest.

Meanwhile, the daughters had grown up. Raakhe, the second among them, joined YES Bank just before the IPO, and found it a great learning experience. An Economics graduate and MBA from Wharton Business School, Raakhe is currently Business Manager of Strategic Initiatives in the CEO's office. "I want to evolve as a financial entrepreneur," she says.

Eldest daughter Radha is an entrepreneur already, but has nothing to do with YES Bank. Her holding company, DoIt Creations, owns two operating companies, one for dry cleaning premium clothes and the other for creating interior and exterior arts in the commercial spaces. The youngest daughter, Roshini, is still studying.

> "... It is always a good idea to start in times of adversity. It makes the entrepreneurial journey much more challenging."

Kapoor, however, has lost brother-in-law Kapur, who played a key role in building YES Bank and was formerly its Chairman. Kapur, who was dining in one of the restaurants at the Oberoi-Trident in Mumbai on November 26, 2008, was a victim of the terror attack that night.

Kapoor and his bank have won several awards over the past five years. The latest was from the Bombay Management Association in March which felicitated Kapoor as the entrepreneurial banker of the decade. He is perhaps the first Indian professional to have successfully set up a greenfield banking venture, which is now the fourth-largest private sector bank in India in terms of total assets.

What's next? "I want to give an institutional character to YES Bank," says Rana. That should not be difficult. Rana and his family are spreading their wings to emerge bigger and bigger in the decades to come. ◆

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The Puris: (Left) Ratul with wife Kavita (sitting); Deepak and (sitting) wife Nita

VIVAN MEHRA

MOSER BAER INDIA

Founder:
Deepak Puri, 70
Wife: Nita Puri heads the Administrative wing
Son: Ratul Puri, Executive Director, Moser Baer India

Why I Did It:
"I was the odd one out in my family, always inclined towards business."

Total Turnover:
₹ 5,500 crore in 2010/11 (annualised)

Main companies:
Moser Baer India

Bull Run for Baer

Deepak Puri's Moser Baer has grown into the world's second largest producer of blank compact discs. By SUNNY SEN

Deepak Puri always wanted to be an entrepreneur. Though hailing from a family of landlords, he was neither interested in farming, nor in joining government service as many of his relatives had done. "I was the odd one out, always inclined towards business," he says.

Though he worked briefly as a junior executive, first with the oil company ESSO — which he joined in Kolkata, then still called Calcutta, in 1962 — and later with Shalimar Paints, it was only to garner business experience — management techniques and marketing tricks — before venturing out on his own.

Puri got into business soon enough, but spectacular success was to come to him only decades later, when his company Moser Baer India became the market leader in the manufacture of blank floppy disks and compact discs in the country, displacing the multinational giants which had dominated the market till then. Anticipating the huge demand and scaling up in record time, Moser Baer, at the height of its production in 2003/04, manufactured 2.5 billion compact discs or CDs, making it the world's second largest manufacturer. (The largest is the Taiwan-based RITEK Corporation.)

But before that many years were spent in near-obscurity. In 1964, Puri floated his first company, Metal Industries in Calcutta, trading in aluminum wires and furniture. Two years later he moved into manufacturing as well. The business did well and Puri might have carried on but for the militant labour movement in the city. Frequent strikes and a deteriorating industrial environment made continuing in Calcutta increasingly difficult. Still, it was not until 1983 that Puri joined the flight of capital from West Bengal, migrating to Delhi.

It was in Delhi that he started Moser Baer India, at first as a 51:49 joint venture with a Switzerland-based company called Moser Baer, which manufactured 'time-keeping machines'. But he soon bought out Moser Baer's stake, making his an entirely Indian company.

Great technological changes had just begun then, which in a few years would see the death of both the cassette and the video cassette to be replaced by CDs, and digital versatile discs, or DVDs. The senior Puri quickly realised the enormous potential market in floppy disks, CDs and DVDs.

He plunged full scale into what the trade calls the optical media business, starting with the manufacture of eight-inch floppy discs, moving on to CDs and later DVDs and Blu-ray discs. In 2000/01, when it first forayed into CDs, Moser Baer India's revenues were only ₹138.5 crore. In three years, by 2003/04, it had catapulted to ₹1,585.6 crore, with net profits of ₹352.9 crore.

But the march of technology is relentless, and by the mid 2000s, the demand for CDs and DVDs too stopped rising. Consumers were downloading their music and movies off the Net, reducing purchases from the store. Well in time, Moser Baer diversified into manufacturing of solar panels. The solar business — Moser Baer Solar, a fully owned subsidiary of Moser Baer India — earned revenues of ₹1,000 crore in 2009/10.

Now 70, Puri has handed over the daily running of the business to his son Ratul. Both father and son are now betting big on the solar business. "Optical media still has growth drivers like flash storage, but the big revenue growth will be in solar," says Ratul, 39.

Moser Baer is an Indian business family in every sense — Deepak Puri's wife Nita is a director of the company, heading administration and human resources. "After handling labour issues for so many years in Kolkata, I have no patience with those anymore," he explains. Even Ratul's 13-year-old son is already showing interest in the family business.◆

Reddy For More Challenges

The GVK Group employs many professionals, but G.V.K. Reddy always has the last word. By E. KUMAR SHARMA

The name Gunapati Venkata Krishna Reddy may not evoke instant recognition, but the acronym GVK certainly does. Ever since this group, which takes its name from that of its founder, bagged the project to modernise Mumbai airport in 2006, it has been marked as one of the stars among the infrastructure companies of the country.

It is also an example of a new kind of family business where, though key family members do hold key posts, they also have professionals working alongside at top levels who play equally vital roles. "The professionals are involved in day to day operations, the family members intervene only in strategy and growth issues, and all major decisions are usually taken by G.V.K. Reddy himself," says son G.V. Sanjay Reddy. Krishna Reddy's wife G. Indira Krishna, G.V. Sanjay, daughter Shalini Bhupal and grandson Krishna Ram Bhupal are all actively involved in the GVK Group, albeit in different areas.

Reddy started small as a contractor to the government in the late 1950s — and remained obscure for many years. Even 20 years ago, he had an asset base of just around ₹100 crore. Today he heads a clutch of companies whose total asset base is over ₹10,000 crore.

It was pure chance that his company reached its first milestone just before the liberalisation of the Indian economy in 1991. GVK won the contract to build the ₹817 crore Jegurupada power project in Andhra Pradesh in the latter half of 1990, its first move into the power sector.

Before Jegurupada, the biggest project the company had handled was a ₹30 crore hotel project in Hyderabad. Jegurupada gave Reddy the confidence to dream and think big. And liberalisation opened up opportunities.

Most important of these for GVK was the modernisation — and the subsequent running — of the Chhatrapati Shivaji airport in Mumbai. Among the bidders for the contract were leading lights of corporate India, including Reliance; GVK hardly seemed to stand a chance. The company had no experience in building airports — though that was not a disadvantage, since few of the other bidders had any either. Till liberalisation, all airports were built and run by the government. All the bidders had roped in foreign collaborators for technical expertise. GVK did the same, tying up with, among others, a South African company, to form the consortium Mumbai International Airport Ltd, or MIAL.

Winning the ₹10,000 crore contract immediately put GVK in the top league. "It brought us national recognition, showcasing our ability to execute mega projects," says Isaac George, Chief Financial Officer of GVK Power and Infrastructure. Since then the group has also acquired a 29 per cent stake in the newly built Bangalore airport.

Though infrastructure, especially power projects and the two airports, remains the GVK Group's core concern, it has its fingers now in many pies, from a road in Rajasthan to manufacturing, hospitality and even biotechnology.

"The biggest advantages of a family business are commitment, willingness to work hard and to take calculated risks," says G.V.K. Reddy. And the disadvantages? He is frank. "Infighting over silly things," he says. How can that be overcome? Counselling and regular meetings of family members help, he says, but the best way is to have one family member who is the undisputed leader. At GVK, this leader is G.V.K. Reddy himself. ◆

GVK GROUP

Founder: G.V.K. Reddy, 72
Wife: G. Indira Krishna, MD, Taj GVK Hotels
Daughter: Shalini Bhupal, Executive Director, Taj GVK Hotels
Son: G.V. Sanjay plays key role in new business initiatives
Grandson: Krishna Ram Bhupal runs two power projects and GVK One, a family-owned mall

Why I Did It: "The opening up of the economy made it possible for me to think big."

Total Turnover: ₹2,500 crore in 2009/10

Main Companies: GVK Power and Infrastructure, Taj GVK, GVK Biosciences, and Novopan

The Reddys: (From left) G.V. Sanjay, his wife Aparna, founder G.V. Krishna, G. Indira Krishna, Krishna Ram Bhupal and Shalini Bhupal

A. PRABHAKAR RAO

The Kapoors: (From left) Tusshar, Ekta, Shobha and Jeetendra

Second Coming

Once TV's first family, the Balaji Group now makes hit films. By ANAND ADHIKARI

BALAJI GROUP

Founder: Jeetendra Kapoor, 68
Wife: Shobha, Managing Director, Balaji Telefilms
Daughter: Ekta, Joint MD, Balaji Telefilms
Son: Tusshar, Executive Director, Balaji Motion Pictures

Why I Did It: "TV as a medium was a huge opportunity to explore when satellite TV was gaining momentum."

Total Turnover: ₹170 crore

Main Companies: Balaji Telefilms and Balaji Motion Pictures

It all started in the early 1990s, when Jeetendra was asked to produce a programme for the channel TV Asia. The acting veteran, with over 200 films under his belt, was initially reluctant. But after some market research and coaxing from his family, he decided to take the plunge. As luck would have it, by the time Jeetendra was ready with the show, the channel had been sold. "We were left with a lot of software but no slot to put it on air," says Jeetendra.

That was when Balaji Telefilms was born. Unlike Jeetendra, wife Shobha Kapoor and daughter Ekta realised the potential of the TV medium. Those were days when private channels were still in their infancy and Doordarshan ruled unchallenged. "It was difficult in the beginning as we got no slots," says Ekta, 34, who took over as Creative Director of Balaji at 19. Balaji finally got its first break on Zee TV with a serial on paranormal activity, *Mano Ya Na Mano*. But it hit the bull's eye with the subsequent *Hum Paanch*. Then began the 'K' soaps that topped the charts for years, making Balaji a household name — especially *Kyunki Saas Bhi Kabhi Bahu Thi* and *Kahaani Ghar Ghar Ki*. The tie-up with Star TV turned into an unprecedented money spinner for both. But by 2008 cracks had appeared in the relationship between the two partners. As the trends changed and the ratings dipped, Star took the 'K' soaps off the air. Balaji floundered, its revenues crashing from ₹95 crore in 2007/08 to ₹4 lakh in 2008/09.

At this stage Jeetendra and his family realised the need for greater professionalism. For the first time, they appointed a non-family CEO, Puneet Kinara. With the new team, Balaji moved into the movie space, and promptly rose to prominence again, pulling off the two biggest sleeper hits of 2010 — *Love, Sex and Dhoka* and *Once Upon a Time in Mumbai*. "We want to emerge as a leading content player in television and movies in the next five to 10 years," says Kinara. "The falling out with Star was a learning experience as it enabled us to emerge as an entertainment powerhouse," says MD Shobha. ◆

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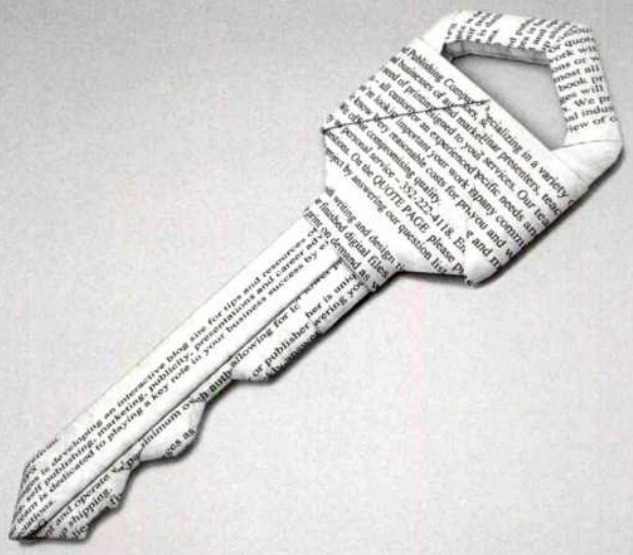

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The Shettys: (From left) Adarsh Hegde, Aarthi and Shashi

UMESH GOSWAMI

ALLCARGO GLOBAL LOGISTICS LTD

Founder: Shashi Kiran Shetty, 54
Wife: Aarthi is a director on the Board
Brother: Umesh works with Shetty
Brother-in-law: Adarsh Hegde works with Shetty

Why I Did It: "I worked for a shipping company for four years and I saw a big opportunity as trade to and from India was increasing big time."

Total Turnover: ₹2,600 crore in 2009/10

Main Companies: Allcargo Global Logistics, ECU Line and TransIndia Freight Services

Riding the Tide

Having turned his cargo shipping company into a ₹2,600 crore giant, Shashi Kiran Shetty now wants to go global. By ANAND ADHIKARI

A remarkable, post-liberalisation success in an unusual sector is Shashi Kiran Shetty, 54. Ably assisted by his younger brother and brother-in-law, he has turned his freight forwarding company, Allcargo Global Logistics, into a ₹2,600 crore giant, the biggest player in the niche segment of those which carry 'less than container loads'.

Shetty, a commerce graduate, reached Mumbai from Bantwal in Karnataka in the early 1980s with entrepreneurship in his blood. Two years of employment in the shipping business convinced him he could strike out on his own. At 25, using his modest savings of ₹25,000, he set up his first company TransIndia Freight Services to move cargo.

Brother Umesh, after reaching Mumbai in Shetty's footsteps, spent a few years working elsewhere before teaming up with his elder sibling. "I needed someone I could trust to look after the expensive equipment, especially the cranes," says Shetty. "The cranes need regular preventive maintenance." Soon after Shetty married, and a year later roped in his brother-in-law Adarsh Hegde, a mechanical engineer, who had lost his job after his employers went bankrupt. Hegde, too, made a brief, independent foray before returning to work permanently with Shetty from 1990. "He is our business development and marketing person," says Shetty.

While TransIndia Freight Services confined itself to transporting cargo within the country by road and rail, Allcargo Global Logistics, which Shetty began in 1993 — just as liberalisation had begun breathing renewed life into the Indian economy — went into shipping cargo overseas. "It was then that I started recruiting professionals in key positions, since none of us in the family knew the cargo shipping business too well," he says.

Allcargo's business grew quickly as, due to its relatively small size, it displayed an ability to provide quicker service than its rivals. The existing players were not overly interested in shipping small quantities of cargo, which occupied less than a full container. Allcargo also filled this gap. "We had to make the best use of the container box. We were paying for the box anyway whether we filled it nor not," says Shetty. He also expanded the business by offering credit facility to select clients, which was not the norm then.

How did liberalisation make a difference for Shetty? It brought about a vital change in shipping regulations with the passing of the Multimodel Transportation Goods Act in 1995. It allowed even companies that did not own ships to become registered carriers of goods by sea, using ships belonging to others. Acquiring the licence to do so in 1998, Shetty teamed up with a Belgian company, ECU Line, to collect cargo and aggregate it into full container loads for shipping. Subsequently in 2001, Allcargo acquired a 16.2 per cent stake in the company, increasing it in 2005 to 34 per cent and a year later, to 100 per cent.

Indeed, Allcargo was booming helped by the domestic cargo business. "I used the profits of my transportation business to build the shipping business," reveals Shetty. Having consolidated in Mumbai, he expanded the business pan-India, with over 5,000 global destinations under his reach.

Slowly, Shetty realised there was still a missing link. "We were totally dependent on poorly maintained government warehouses for storing our goods," he says. "I decided to set up our own container freight stations." Currently, Allcargo has three such freight stations in Mumbai, Chennai and Mundra, Gujarat.

In 2005, Allcargo also entered the capital market with an initial public offering of ₹150 crore. "We have left the company to professionals now," he says. Shetty's dream is to become a global market leader in logistics. ◆

Learning from the Tatas

After working with the Tata Group for 33 years, Vishambhar Saran quit to build a ₹5,000 crore conglomerate. By SUMAN LAYAK

The typographical resemblance between the logos of the VISA and Tata groups is not entirely coincidental. There is a lot of Tata in VISA. Vishambhar Saran, founder of VISA Group, a ₹5,000-crore conglomerate with interests in steel, mining, power, international trading, shipping and logistics, not only worked for the Tatas for a good 33 years after getting his degree in mining engineering from Benaras Hindu University in 1969, but has also tried to organise his group's culture in the Tata way. Saran, who lost his Agarwal surname in his Class X certificate like many Indians, structured VISA with different councils and boards to engage with professionals. It has attracted top professionals such as Shardul Shroff, M.S. Verma and Ashok Basu to serve on the boards of its companies.

Indeed, while working with the Tatas, Saran's outlook on life changed. When he started out, his aim was to work for a few years and then return to Kanpur, his hometown, to set up a small-scale unit. "At the Tatas, I was known by who *I* was. In Kanpur, I would always be someone's son or grandson," he says.

It was this individualistic streak combined with professionalism that saw him rapidly climb the corporate ladder at the Tatas. In 1987 he was made the director for raw materials at Tata Iron & Steel Company (now Tata Steel), at age 38. Saran was part of Russi Mody's team in Kolkata. But it was also this same temperament that led him to resign in 1994 at the first sign of a roadblock to his career. "In 1992, J.J. Irani became managing director and had nine years to go before retirement. I was 43 and not sure whether I wanted to wait it out to see if I would be made managing director after him," says Saran, who declined requests from Ratan Tata to stay back.

Yet Saran still did not return to Kanpur. He decided to stay on in Kolkata, where his wife, Saroj Agarwal, had been running VISA Ltd, a company that traded in marine products, since the mid-1980s. He expanded VISA's scope, starting by bagging a contract with German company RHI AG to procure coke and coal from China for them. Saran's office became the starting point for the VISA Group's journey.

It was at this office that the eldest of his three sons, Vishal, now 36, an Oxford postgraduate in economics, joined the group in 1997. Vishal is now managing director of VISA Steel. Saran's other two sons, Vikas, (Vishal's twin, younger by 12 minutes), and Vivek, 32, joined the group in 1999 and 2004, respectively.

Vikas, who ran the group's office in Switzerland before it entered power generation, is now managing director of VISA Power, while Vivek heads the trading business out of Singapore and is also leading the group's mining and shipping businesses. Both Vikas and Vivek hold engineering degrees from Cambridge. Two of Saran's three brothers have also worked with him. While one has retired, his youngest brother, who also earlier worked at Tata Steel, has been deputed to run the trading outpost in China.

So did the inheritance come naturally to Saran's sons? "Sons and family members can join the business if they are qualified," says Saran, echoing the practice at Tata Group. In fact, both Vikas and Vivek worked in other companies before joining the group, the first at ICI and the other with Booz in Switzerland and the United States. At work, Saran is always addressed as "Mr Saran," even by his sons.

"We are in our positions because we have earned them through hard work," says Vishal, adding, "For us, VISA is not about inheriting what our father has created. In fact, we have built it together."

Finally, how did the name VISA come about? Simply by joining the first two letters of Vishambhar and Saroj, says Saran. ◆

VISA GROUP

Founder: Vishambhar Saran, 63
Wife: Saroj Agarwal
Sons: Vishal, MD, VISA Steel, Vikas , MD, VISA Power, Vivek, who heads the trading unit

Why I Did It: "What was the salary of a managing director at that time? The basic salary was capped at ₹15,000."

Total Turnover: Around ₹ 5,000 crore

Main Companies: VISA Steel, VISA Power, VISA Comtrade

The Agarwals: (Standing from left) Vivek, Vishal and Vikas. (Sitting) Saroj and Vishambhar Saran at Victoria Memorial in Kolkata

DEBASISH PAUL

Entrepreneur by Chance

Jagdish Saxena, who never wanted to get into business, now heads a pharmaceutical empire. By ANUSHA SUBRAMANIAN

If he could live his life all over again, says Jagdish Saxena, he would prefer not to be an entrepreneur. It's a surprising remark from the 72-year-old founder and Chairman of Elder Pharmaceuticals Limited, or EPL, considering the group he heads — with a turnover of over ₹1,000 crore, and annual growth of about 20 per cent for the past three years — has joined the ranks of India's leading pharma companies within just 23 years of existence.

But Saxena still considers himself an 'accidental entrepreneur'. He had no plans of getting into business when he began his career with the Indian Air Force in 1960. In 1964, he quit to join a private company as liaison officer, rising quickly up the corporate ladder to become managing director of Walter Bushnell, a pharma company, in 1987. That very year, the management informed him that it intended to shut down a few plants and lay off around 300 employees. Saxena refused to accept this. With the company adamant, he walked out to launch his own pharma start-up in which he employed all the 300 who were about to lose their jobs. The initial capital came from his own savings and loans from banks and friends.

"When my father quit, even some of those who were in no danger of losing their jobs like his company driver, the peons and even the marketing head followed suit, preferring to join him," says Alok Saxena, Director, EPL and the eldest of Saxena's three children. "He has this amazing charisma that makes people believe in him." Alok himself was just 22 when, at his father's behest, he quit studying law and joined Elder.

The curious name 'Elder' has its own backstory. On holiday in Australia, Jagdish Saxena says he saw a really l-o-n-g trailer truck for the first time, which had the inscription 'Elder' scrawled along its side. Both the sight and the name appealed to Saxena. He decided to name his company, Elder Pharma.

EPL started small, manufacturing just two products. But the tipping point came soon when Saxena had the brainwave of producing calcium supplements from natural sources. That was the beginning of 'Shelcal', which has since become a household name among the calcium-deficient, capturing one-fourth of this niche market. "Initially no chemist was willing to sell it," recalls Alok.

Today, the ₹700-crore flagship EPL manufactures and markets prescription pharmaceutical brands, as well as surgical and medical instruments and devices. Its core strength has been the prescription arm, a business which chimes well with the conservative approach of both Jagdish and Alok. When Elder decided to expand into over-the-counter products and the fast moving consumer goods business, which requires aggressive wooing of consumers, the Saxenas realised a person with a different mindset was needed to run the show. Enter Anuj, Jagdish's second son, a qualified doctor.

"Anuj is very marketing savvy, the consumer business needed somebody like him," says Alok. Anuj says he had never wanted to be a businessman, but six long years of studying medicine left him disillusioned. He joined EPL on New Year's day, 1991, initially in the marketing department of Elder Pharma. But he soon moved to Elder Healthcare, or EHL, which was hived off as a

ELDER PHARMA

Founder: Jagdish Saxena, 72
Daughter: Shalini Kumar, MD, Elder Instruments
Sons: Alok, Director, Elder Pharma and Anuj, MD, Elder Healthcare

Why I Did It: "When the company I was with laid off 300 people, I felt responsible for them. I quit, started my own unit and employed them all."

Total Turnover: ₹1,000 crore
Main companies: Elder Pharmaceuticals (flagship), Elder Healthcare, Elder Projects, Elder Instruments

The Saxenas: (from left) Daughter Shalini Kumar; founder Jagdish; wife Sneh, son Anuj; Alok and wife Niti, at Versova beach in Mumbai

RACHIT GOSWAMI

separate FMCG branch.

Anuj expects his ₹100-crore EHL to grow five times in the next three years. "The biggest hurdle was changing the cautious mindset of the company and of my family," says Anuj. "FMCG is a high investment, high profile business. (It needs visibility). What you see, sells."

Daughter Shalini Kumar, the youngest of the three siblings, who studied bio-medical engineering in the US and returned to India in the early 1990s, also joined soon after. "I thought, why not, and decided to give it a try. The rest is history," says Shalini, who is managing director of another group company, Elder Instruments.

Elder Instruments had been conceived in 1994 with the idea of catering to a niche segment of industrial and medical instruments. In the first, it specialises in instrumentation and weighing machines. In the second, machines that are used to treat respiratory and sleep disorders.

"Ten per cent of India's population suffers from sleep or respiratory disorders so I see huge potential for our business," says Shalini. She is working towards doubling Elder Instruments' revenues to ₹100 crore by next year from ₹50 crore at present.

"The family tradition fostered in the organisation is a great strength that puts us in a different league," says Alok. Jagdish Saxena says he is glad all his three children have decided to take up the mantle of the Elder Group and hopes they will carry forward his legacy. He believes in their abilities and is ambitious for them, saying confidently that the Elder Group will grow fivefold to become a ₹5,000 crore group in the years to come. ◆

Switch Set Baron

Havells, which Qimat Rai Gupta bought for ₹7 lakh in 1971, is now the fourth-largest lighting company in the world. By MANU KAUSHIK

In March 2007, when Havells India acquired Frankfurt-based SLI Sylvania's lighting business, many in the industry were stunned by the Noida company's audacity. Sylvania was the bigger company — at €469 million in 2006, or ₹2,720 crore then, its revenues were more than one-and-a-half times Havells's. But, on the back of a strong balance sheet and the high growth it was registering — 40 per cent compounded growth for the previous seven years — Havells decided to go ahead.

The acquisition went off smoothly, but soon a lot started going wrong. As a recession hit the global economy in 2008, the lighting and fixtures business too got some nasty shocks. Sylvania's revenues and profits plunged. Its turnover fell from €490 million in 2007 to €410 million in 2009, with almost zero earnings that year.

Vanishing profits made it difficult for Havells to service the debt it had taken on to fund the buyout. "It was a do or die situation. It was not about saving financials, the reputation and the future of the company was at stake," recalls Anil Gupta, Joint Managing Director of Havells India and son of the founder chairman, Qimat Rai Gupta. Anil along with his cousin Ameet, then prepared a comprehensive restructuring plan for Sylvania that aimed at reducing manpower, increasing outsourcing to low-cost countries like China and India, saving on material costs and optimising processes. The plan worked. In 2010, Sylvania was back on its feet, recording €28 million operating profits on revenues of €430 million.

Havells's rise has been meteoric. From very humble beginnings in 1958, it is now, following the Sylvania acquisition, the fourth-largest lighting company in the world after Philips, Osram and General Electric. Its founder Qimat Rai had landed in Delhi at age 21 with ₹10,000 in hand. He became a trader at the city's Bhagirath Place market, dealing in cables and wires.

Keen business acumen saw him strike a deal to buy up the Havells brand for around ₹7 lakh in 1971. Havells was a purely Indian enterprise that had fallen on bad days — named thus by its original promoter Haveli Ram Gupta to give the impression that it was a foreign company.

Over the next two decades, Qimat Rai not only turned Havells around, but also expanded rapidly. He set up new manufacturing units, acquired smaller — and sometimes sick — companies, started joint ventures, entering into new product categories such as high capacity fuses, miniature circuit breakers and energy meters.

In 1995, the company set itself an ambitious target — to grow its revenues from ₹100 crore to ₹500 crore in 10 years. "In those days, most small companies which had crossed ₹100 crore in annual turnover found it extremely difficult to grow beyond. The key reason was the promoters' lack of trust in their employees, which made them unwilling to delegate powers to the professionals they hired," says Qimat Rai. "When we set this target, we were clear we could not achieve it on our own."

He brought on board a number of professionals to oversee day-to-day operations, while confining himself to a strategic role, searching for new growth areas.

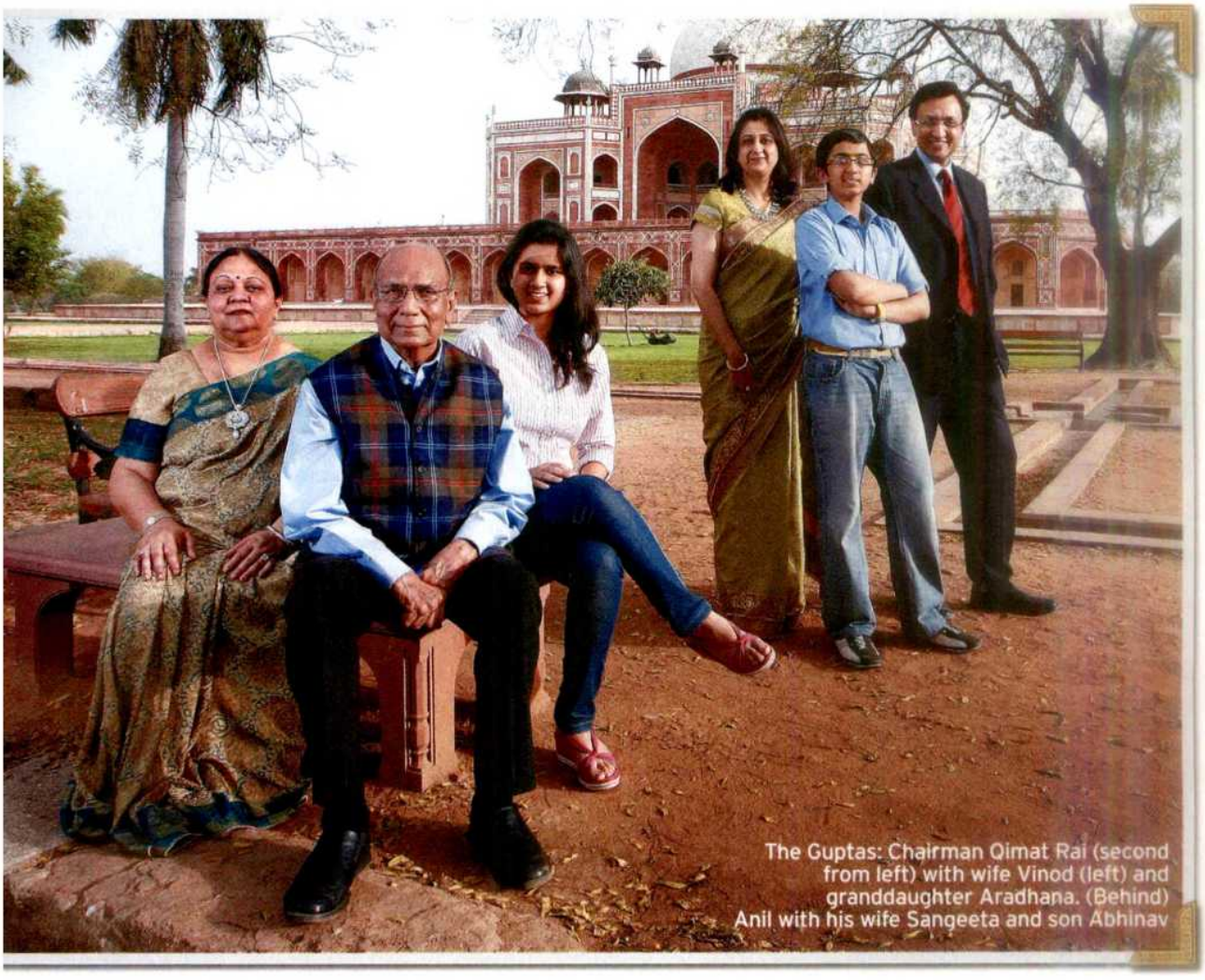
By this time, Qimat Rai's son Anil had

HAVELLS INDIA

Promoter: Qimat Rai Gupta, 74
Wife: Vinod
Son: Anil, Joint Managing Director

Why I Did It: "My father was a man of modest means. Earning respect and making my family financially stable has been my key motive throughout my life."

Total Turnover: ₹5,300 crore in 2009/10



The Guptas: Chairman Qimat Rai (second from left) with wife Vinod (left) and granddaughter Aradhana. (Behind) Anil with his wife Sangeeta and son Abhinav

SHEKHAR GHOSH

also joined the family business. To counter rising competition from foreign brands and Chinese manufacturers, Anil spearheaded the company's foreign collaborations, bringing in technology and scaling up the distribution network in India and overseas.

"We subsequently invested heavily in research and development to end our dependence on foreign partners for technology," says Anil. For the past seven years, the company has been spending nearly 1.5 per cent of its annual revenues on R&D. All the 11 manufacturing units Havells has are equipped with the latest technologies.

Havells, with revenues of ₹5,300 crore in 2009/10, has a wide distribution network spanning 50 countries in Asia, Latin America, Africa and Europe, and a diverse product portfolio catering to household, commercial and industrial electrical needs. Many of its products are market leaders.

"The key challenge is to maintain the growth momentum. We want to double the turnover in the next three years, which is achievable given that almost 70 per cent of our revenues are coming from high-growth emerging markets," says Qimat Rai.

Having established a strong brand name, Anil is now planning to expand into rural areas. "With the rise in construction activity, there is a lot of latent demand for our products in small towns," he says. He is bursting with plans, but adds that he is not a patch on his father, lacking the older man's uncanny ability to take calculated risks. "I think of myself as a trained entrepreneur. I have a methodical approach towards issues. I can't take a €300 million acquisition decision in less than five minutes like my father did in the case of Sylvania," he says. ◆

Airtel's Mittal

Future's Biyani with daughter Ashni

UMESH GOSWAMI

The Reclusive Stars

Short profiles of some of the biggest and most innovative entrepreneurs

By MANU KAUSHIK and ANUSHA SUBRAMANIAN

A flamboyant British entrepreneur known for his promotional antics seems too strong an inspiration for an essay on India's new business families. But Richard Branson's words — if not actions — sum up the way these businessmen grabbed opportunities in the liberalised India of the 1990s and later. "Business opportunities are like buses, there's always another one coming," Branson has said.

The end of the licence-permit regime in the 1990s ensured that there are enough buses plying on the road to economic growth. Many of the business dynasties such as the Shrirams, Wadias, Modis, Mafatlals and Lalbhais, which had ruled so far, got relegated to the background. It was the Mittals, Biyanis, Tantis and Agarwals who spotted the opportunities and acted on them to make it big over the past two decades. Those profiled here modestly declined to be interviewed for this report.

Take Sunil Mittal. Starting with the manufacture of bicycle crankshafts in 1976, he tried his hand at several unrelated ventures including a failed bid for a Maruti dealership, till he struck a goldmine in the telecom business. And not by making India's first push-button telephones. In 1992, he bid for the licence to provide mobile telephony services in the Delhi circle. Two years later, he secured the rights for it and began laying the foundation for Bharti Airtel, today the country's largest mobile telephony operator. (At last count, Bharti Airtel had over 158 million subscribers and a market capitalisation of ₹1.2 trillion.) Shortly after getting the licence, he was invited to dinner by a industrialist with interests in automobiles. The host suggested that Mittal sell the Delhi licence for "₹10-20 crore". Mittal recounts how he grit his teeth and said goodbye. That industrialist, or rather his son, today runs a tractor business, while Mittal and his brothers count $8 billion, or ₹36,000 crore, and change as their net worth.

Mittal, whose brothers Rakesh and Rajan are with him in the business, has also gotten into retail, agriculture, insurance and entertainment by forming joint ventures with some of the giants of the western world —Walmart, AXA Group and EL Rothschild Ltd. In 2010, he snapped up the African operations of mobile telephony player Zain for $10.7 billion. Bharti Airtel became the world's fifth largest telecom operator.

Pulling off a successful business is just one part of his personality. As the business grew rapidly, Mittal spent plenty of time and effort in hiring professional managers to run his companies.

If Mittal is king of the spectrum, Subhash Chandra of Zee Group rules satellite broadcasting. Joining the family's rice trading business at 17, he ventured out on his own in 1983 and introduced

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Zee's Chandra

MANDAR DEODHAR

Indians to laminated tubes and packaging. His next venture, EsselWorld amusement park, prompted him to reach for the sky. By 1992, Chandra launched Zee TV, the first private television channel. Currently, the group has interests across diverse areas such as entertainment, education, packaging, wellness and broadcasting with a combined market capitalisation of ₹20,987 crore. Last November, when he turned 60, Chandra decided to pass on the baton to sons Punit and Amit Goenka.

Then there is Kishore Biyani, CEO of Future Group. Born into a middle class Marwari trading family, Biyani saw the future in modern retail in the late 1990s by launching ready-to-wear branded trousers through Pantaloons stores at a time when most Indians depended on tailors. From there, it was a hop, step and jump into full-fledged retail, from lifestyle (Pantaloons) to household (Big Bazaar). Today, the parent Future Group operates around 1,000 outlets in 71 cities across multiple formats, many of which are Biyani's innovations rather than Western templates. While retail remains the core, the ₹10,000-crore group has been entering other high-margin sectors such as financial services, telecom, consumer durables and fast-moving consumer goods as well.

New problems need new solutions. When Tulsi Tanti began facing difficulties in his textiles business because of erratic and costly power supplies, he found the answer blowing in the wind. He set up two wind-powered turbines for his textiles plant in Gujarat. Renewable energy was then largely unheard of in India. The initial cost was high but he quickly realised the long-term competitiveness of wind energy. In 1995, Suzlon was born with just 20 people. In less than 15 years, it has become the third-biggest manufacturer of wind turbines in the world. Tulsi Tanti today lords over a ₹20,000-crore group employing more than 16,000 people with operations across the Americas, Asia, Australia and Europe. Although Suzlon currently is battling debt and the competition, Tanti seems to be unperturbed about the future of his business.

The Shrirams, Wadias, Mafatlals and Lalbhais got relegated while the Mittals, Biyanis, Tantis and Agarwals spotted the opportunities

Not all are into sunrise sectors. Anil Agarwal of Vedanta Resources has grown huge empires out of dirty and old-fashioned businesses such as mining and smelting. Starting off as a scrap trader in Mumbai some 30 years ago, he was quick to spot companies going cheap. In 1983, he anticipated a huge copper demand from the telecommunications industry and acquired a closed-down copper-cable maker in the United States. He also entered other metals such as aluminium and zinc. Today, Agarwal is among the richest metals magnates in the world. ◆

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TING TRENDS | INVENTING THE FUTURE

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Come October 2012, A.M. Naik, if all goes by his plan, will start writing a memoir. The impatient man he is, the Chairman and Managing Director of Larsen & Toubro has it all planned out for his post-retirement days. "One hundred and fifty requests have come to me to write a book," he says with no hint of exaggeration. "It will be titled 'V to W'. Village to World."

Naik flaunts his years of growing up in a village like a general his scimitar-and-baton insignia. When he was in Class Five, Naik's father, a high school mathematics and science teacher and Gandhian, shifted from Mumbai to Kharel in southern Gujarat. "And suddenly from an elite school, I came down to a floor; that, too, a *gobar* (cowdung) swept floor," he says, this time a smile pushing against ample jowls.

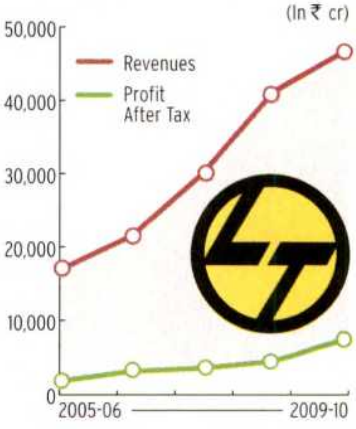
His college education was as modest: he graduated in mechanical engineering from Birla Vishvakarma Mahavidyalaya Engineering College in Anand, Gujarat. "Global chairmen ask me, 'Are you from Harvard? Have you studied in America? Are you from IIT?' I say, 'No. I am from a village.'," he says, unmindful of the impression of reverse snobbery he radiates. (IIT refers to the Indian Institutes of Technology, storied for the top-notch engineers they have given the world.)

The story of Naik, born in June 1942, third to his parents after two girls, is one of hard work, luck, leadership, ambition and shrewdness — all in enormous measure. Attributes that helped the boy who "thought in Gujarati and translated into English" race to the top of one of India's most-respected conglomerates, which even today is among the few professionally-managed, board-run and widely-held companies in a $1 trillion economy. One that, after he became CEO in 1999, has grown from revenues of some ₹7,400 crore to ₹46,800 crore — ranked sixth in India if government-owned behemoths are not counted.

Why then is the 69-year-old Naik risking all that he has built by throwing L&T into a restructuring whirl that will effectively split it into nine entities? Nine "virtual companies" saddled with too many businesses — L&T runs 152 — with too thin a senior management to run them. Businesses that cannot attract the best talent in a country where the brightest engineers emigrate to the West or choose better-paying software jobs. Businesses that will benefit from new-found flexibility and independence, to be sure, but will miss the benign shadow of a thriving Engineering and Construction business that generates about 85 per cent of L&T revenues. Especially if they are spun off and listed on the stock markets.

The Relentless Climb

A.M. Naik helped L&T grow more than 150 per cent in the past 5 years



Source: Company

All this gut-wrenching change has to be carried through with just 18 months left on Naik's and key members of his core team's watch.

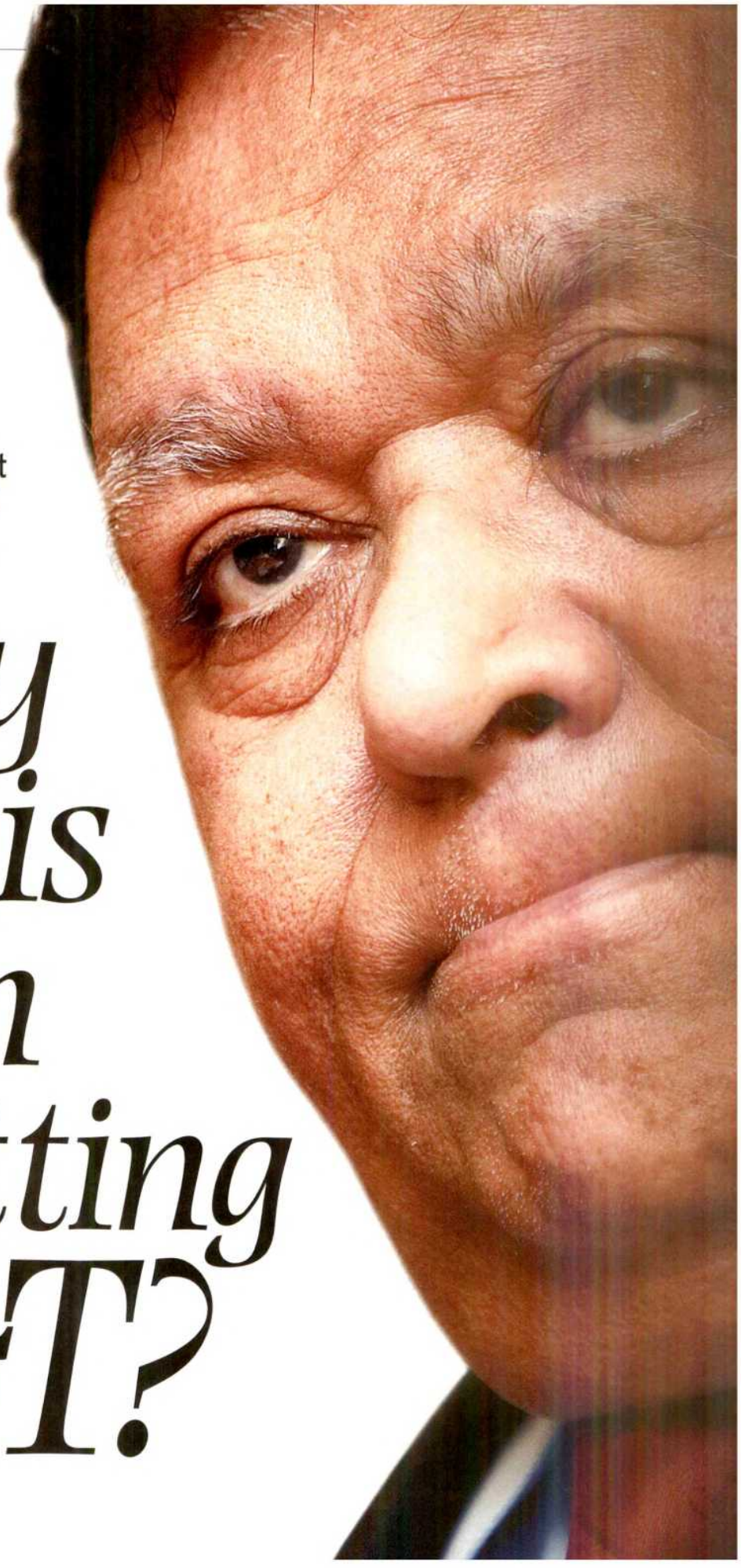
In an interview that runs for nearly four hours, Naik is at his combative best. But, even he has to agree that L&T has become increasingly unmanageable in its scale and scope (See *Spreading Itself Thin*). "You (L&T) have stretched yourself beyond limits to get to (₹) 50,000 crore (revenues) without changing your earlier structure," he says. To illustrate, he says the L&T board today has just eight executive directors despite the company's size — down from nine in 1977.

To add to L&T's troubles of a complex structure, some of Naik's most trusted lieutenants, who

PHOTOGRAPHS BY RACHIT GOSWAMI

A.M. Naik risks squandering his legacy with a rushed plan to split the company. By SUNNY SEN and JOSEY PULIYENTHURUTHEL

Why is this Man Splitting L&T?



SPREADING ITSELF THIN

L&T has diversified its business enormously. The current list:

Business	Scope
Infrastructure	Roads and Runways, Bridges, Metros and Ports, Hydel, Nuclear and Defence
Machinery and Industrial Products	Industrial Product and Machinery, Construction Machinery and Business Sector
Metallurgical and Material Handling	Minerals and Metals, Bulk Material Handling, Water and Utilities
Power	Thermal, Gas, EPC (Construction)
Power Transmission and Distribution	GIS Substations, Transmission Line, Underground EHV Cabling
Buildings and Factories	Institutional and Commercial Buildings, Factories, Residential Building
Electrical and Automation	Electrical Standard Products, Electrical Systems and Equipment, Control and Automation
Heavy Engineering	Oil & Gas, Thermal and Nuclear Power, Aerospace, Defence
Hydrocarbons	Upstream, Mid and Downstream, Modular Fabrication Facilities, Hydrocarbon Construction and Pipelines
Shipbuilding	Building ships, Submarines
Subsidiaries	L&T Finance, L&T Infotech, L&T Capital, etc

Source: Company

L&T Group has **152** lines of business, clubbed into 63 SBUs

Engineering and Construction make up **85** per cent of L&T's business

5 of 8 L&T executive directors are set to retire between now and early 2013

have been by his side for decades, retire over the coming quarters. Director J. P. Nayak retires on March 31. K. V. Rangaswami, Director and President, Construction, is set to retire in June. Directors K. Venkataramanan and V. K. Magapu retire in mid-2012 and early-2013, respectively. The retirement age for directors at L&T is set at 67 years, and 70 for the chairman.

Then, L&T faces the tough task of pulling in competent hands to man advisory boards at each of the nine new, proposed virtual companies. With three external members and one non-executive chairman needed for each of these boards — designed to set goals and monitor each entity as a board of directors does with the CEO of a company — Naik needs to spot, cajole and bring in 36 top-flight professionals almost overnight.

But that task is not easy even if the L&T head says he spends nine hours of his 14-hour workday on the restructuring and interviews 10 people a week. Naik was trying to hire a CEO with international experience to take charge of L&T's machinery and industrial products 'virtual company', run by Nayak today, and housing businesses from industrial and construction machinery to rubber machinery and valves. "It was 11 strategic business units, SBUs, rolled into one and he had handled only one business in the past," Naik says. But the candidate was clear that he had run a bigger brief in the past and was disinterested.

An unstated problem is that of the larger-than-life personality that is Naik, whose pugilistic visage and bluster to match can be unnerving if you have not known him for years. No one will go on record on this but one company executive, who has worked closely with the chairman, says, "There is a strong sense of 'I' with A.M.N. (as Naik is referred to internally). Other directors feel left out at times." This is a view that runs strongly through L&T — and during *BT*'s interview with Naik — though several in the company also point out their chairman is warm once he gets to know you well.

Perhaps. But until top external candidates get to know that side of Naik — industry gossip has it that Ravi Uppal, a high-flier from ABB lured to run L&T's power business and widely seen as Naik's successor, has gone low profile as proof that only one person can be the face of L&T — the conglomerate will face a problem of empty senior slots.

Such empty slots mean double-staffing for several faces, for now (See *L&T's New Faces*). S.N. Subrahmanyan, a senior vice president heading building and infrastructure business for L&T will also run the buildings and factories virtual company — in addition to replacing Rangaswami on the L&T board of directors on July 1. Rangaswami, the retiring director, will be the advisory board chairman for the infrastructure as also the metallurgical and materials handling virtual companies, and also will don the CEO role in the power transmission distribution business. Ditto with at least four others who will have dual roles. This can mean cutting corners in the man-

agement bandwidth required to carry a restructuring of this size through. "The start and end points of restructuring are defined. The effort taken to execute this is usually underestimated," says Chaitanya Ramalingegowda, a globalisation specialist at Zinnov Management Consulting.

Still, despite the uncertainty that has shaved off 22 per cent value from L&T shares between January 5, when the restructuring news became public, and March 23, there is no doubting that L&T is a well-oiled machine that generated ₹5,308 crore in net profits in the 2009/10 financial year and as of December 2010 had an order book worth ₹1.14 trillion (one trillion is 100,000 crore). Operating profit margins are at a healthy 13.5 per cent and debt gearing low at 0.35 times equity.

Delivering this level of performance is a close-knit team of top managers. At its forefront is Nayak, an old timer. At his industrial, no-frills style office in the Powai suburb of Mumbai, the scribbling on a white board shows why Nayak is key to Naik's transformation plans for L&T. "Set to achieve 2015 targets, Rigorous implementation of 2015 roadmap, and Initiatives in each (virtual company)," the bullet points read. Quizzed on such four-year planning, Nayak says, "We will change the constitution of the company from an operational company to a hybrid holding company."

The retention of directors such as Nayak and Rangaswami in the L&T system as advisory board chairmen may seem mild transgressions of corporate governance ethics — will the company be run by old timers who have retired from the board of directors but stay on in advisory roles and wield power? — but management consultants see it as a positive for the company. "The successive restructuring is a huge mammoth exercise. Having continuity always helps," says the India head of a top global consultancy firm, requesting he and his employer not be identified. In 2007/08, L&T had tried to put in place internal management committees to help run each division with flexibility and independence. That structure fell by the wayside because, defends Naik, the demand for L&T's services and products was expanding so fast that the company risked missing growth if it paid attention to fostering the committee-led structure.

When asked about the directors staying on in the company, and the possibility of him doing so too, Naik is a little vague at first. "Now we are on the final lap, where everybody knows that they will have to play the transitional role: choose the right board and the right CEOs, make the companies independent, and transit out as early as possible," he says. "We are trying our best for September 2012, but if that means not only me, if that means J. P. Nayak has to work six months longer, he will." Towards the end of the interview, Naik

INTERVIEW A.M. NAIK

"You cannot run L&T as you did before"

On strategy when he took over:

The first thing I did was to create a new vision, a new strategy and therefore bring in one or two of the top three strategy firms to resolve issues that were inherited. That was keeping me occupied. The second strategy is to study once we had implemented this, what is the L&T score. Study the various businesses and put them in buckets. 'Small and totally non-core' like glass bottles, leather shoes. Please close if you can't sell...Second, 'too small and cannot grow' and heavily dependent on foreign technology. And 'non core but grow to sell'. That's what I did with cement.

On functioning of L&T after restructuring:

You have to create a company within a company such that it runs like a listed entity and is ready with a governance structure, with a proper understanding of a CEO, and know how an external board member behaves, how does he has to manage the board. So we have three external people in each of the boards and one parent company non-executive nominee — and each one of them has been told to run this 'virtual' company and bring it to a level of maturity where the parent can trust them to spin it off so that it does not spoil the name of L&T... We are trying to simplify L&T and make it worthwhile to compete with the gorillas of the world.

For full text of interview go to www.businesstoday.in/L-T

On his successor:

L&T is not one company, it is 25 companies. Can it be run by a single man? People tell me you have not left a successor. I tell them, you find a man in the world who will kill himself four times a day, has worked for more than a hundred years, started more than 60 per cent of the company himself with devotion and passion, and not bothered about his own family. The day you find such a man he is my successor. So what should we do? There is no such person. And therefore you cannot run L&T as you ran it before.

On the risks of restructuring:

If we don't do proper restructuring a lot can go wrong, therefore we have to make it work. So we have to work day and night, relentlessly, and make sure we do everything, think and reinvent to suit the individual businesses to be run in the best possible manner in the industry and be one-up against them... Simplicity-wise the task is undoable. The easiest answer to tell you is it will take five years.

THE NEW FACES
Chairmen and Business Heads of L&T

COMPANY

Advisory Chairman — Business Head/ CEO

INFRASTRUCTURE

K.V. Rangaswami Director
President, Construction

S.N. Subrahmanyan
Sr VP, Building and Infrastructure

MACHINERY AND INDUSTRIAL PRODUCTS

J.P. Nayak Director &
President, Operations

S. Raghavan
Senior Vice President

METALLURGICAL AND MATERIAL HANDLING

K.V. Rangaswami

D.R Ray
Executive Vice President

POWER

A.M. Naik Chairman and
Managing Director

Ravi Uppal
Director & President

POWER TRANSMISSION AND DISTRIBUTION

Subodh Bhargava
Independent Director

K.V. Rangaswami

BUILDINGS AND FACTORIES

Subodh Bhargava

S.N. Subrahmanyan

ELECTRICAL AND AUTOMATION

R.N. Mukhija
Independent Director

Sharad C. Bhargava
Senior Vice President

HEAVY ENGINEERING

J.S. Bindra
Independent Director

M.V. Kotwal, Director &
President, Heavy Engineering

HYDROCARBONS

K. Venkataramanan
Director & President

K. Venkataramanan

SHIPBUILDING

S. Rajgopal
Independent Director

M.V. Kotwal

is slightly more direct: "September 2012, that's my term and it ends," he says.

That, ironically, is the worst-case scenario for L&T. For, in the works is a massive and long-overdue cleaning of businesses at the conglomerate, which will be significantly hampered without someone of Naik's calibre and experience at the helm. A summary of the task at hand:

- Sell businesses that contribute little to revenues, profits, market share or brand. This could range from businesses such as valves to construction to road building equipment
- Restructure to scale up and sell. Example: buy out competition in a business such as plastic machinery; and sell. Naik has used this strategy in cement and readymix concrete with brilliant returns
- Streamline business arrangements that are large (upwards of ₹2,000 crore) like the venture with construction and mining equipment maker Komatsu
- Grow businesses with big potential for growth. Realty, for instance, which Naik believes can add ₹500 crore to L&T's net profit in a few years
- Unlock value from fair-size business such as L&T Financial Services, where an initial public offer is planned. Director Deosthalee will shift as its chairman and managing director after listing.

All this — and this is just one quick peek into the complex agenda before L&T — even when it keeps its growth engines running. "L&T is a projects company. It should be very careful what happens to the operational structure," says Satyashri Mohanty, Founding Director of Vector Consulting Group, which counts Godrej & Boyce and Tata Bluescope among clients. This operations focus is critical for the ₹20,000 crore investments that L&T has made in power, financial services, defence, and oil and gas, to pay back.

L&T and its 38,000 employees, in other words, need Naik more than ever before. Says Gautam Adani, Founder-Chairman, Adani group of companies, and a close acquaintance of the L&T chief: "There will be a huge gap when he steps down. I feel he should continue for, say four-five years, in a non-executive capacity to groom the next leader."

That may be needed, ironically, even to find Naik's successor because the board, says the head of a large finance house in Mumbai, looks up to him for direction in all matters. To ensure L&T's success — some would say survival, even – Naik will need to stay until the company's recast is successfully carried through. Even if that takes more time than when his term ends in September 2012. Which, sadly for the Indian corporate reader means that Naik's memoir 'V to W' will likely take longer than planned to hit the shelves. ◆

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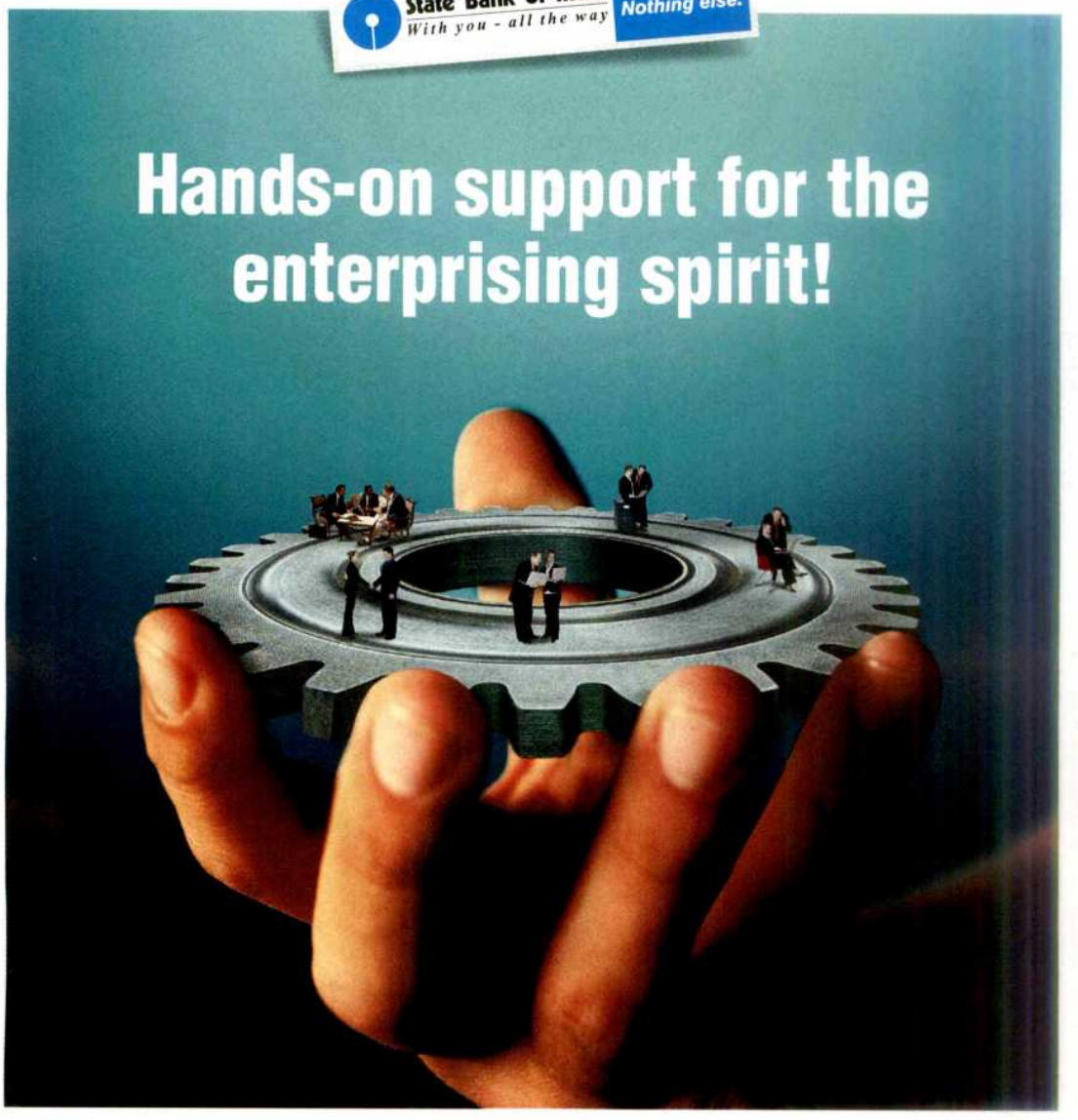

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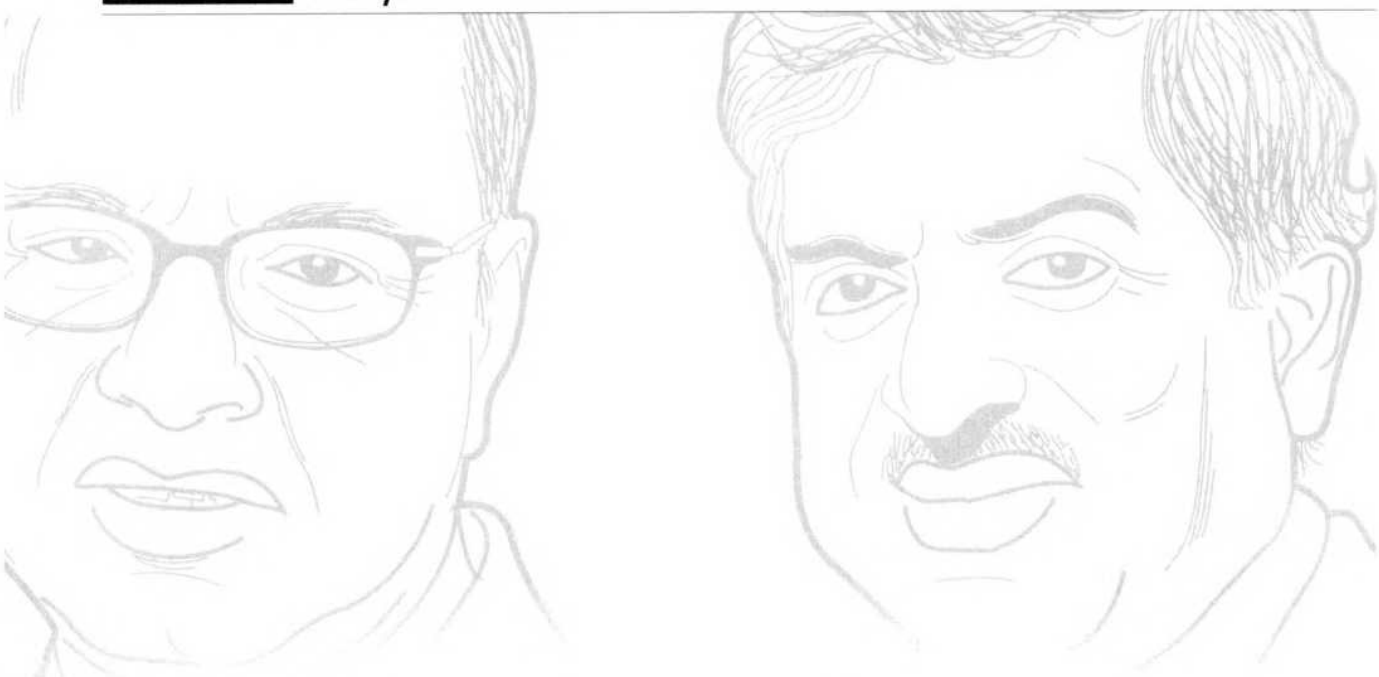

FADING OUT

Infosys

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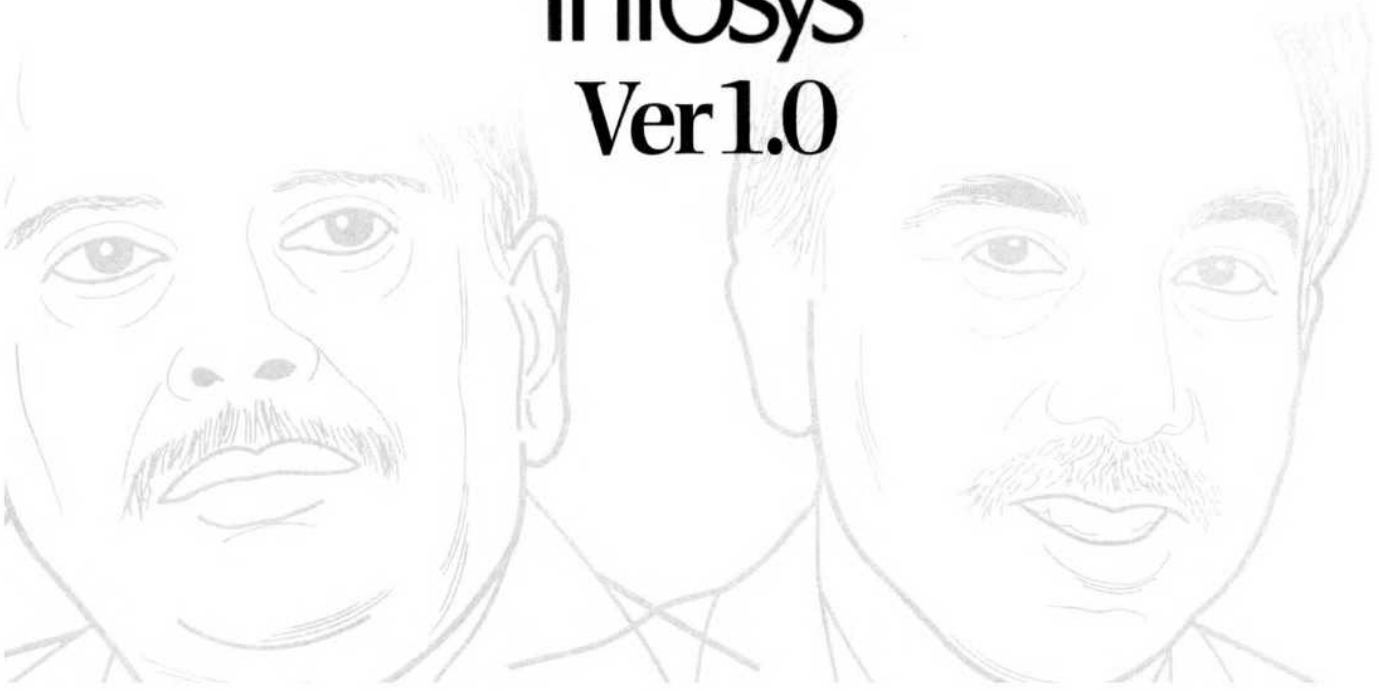


Ambiguity over its business model, top management transition and a testy second-tier leadership will challenge Infosys like never before. By RAHUL SACHITANAND

Sometime after April this year, a select group of 100 top leaders from Infosys Technologies will meet at the company's leadership institute in Mysore. Under the keen eye of the institute's Vice President and Director, Matt Barney, they will go through simulated leadership lessons on contract negotiations and the art of selling, as the country's second largest software company prepares itself for the big shift.

The shift happens in August, when N.R. Narayana Murthy, 65, co-founder of Infosys and its non-executive chairman and chief mentor, finally hangs up his boots. (*See http://bit.ly/murthylead*) Already, another founder, Nandan Nilekani, has walked away after taking over as the head of the Unique Identification Authority of India. Two others, N.S. Raghavan and Ashok Arora, had quit earlier.

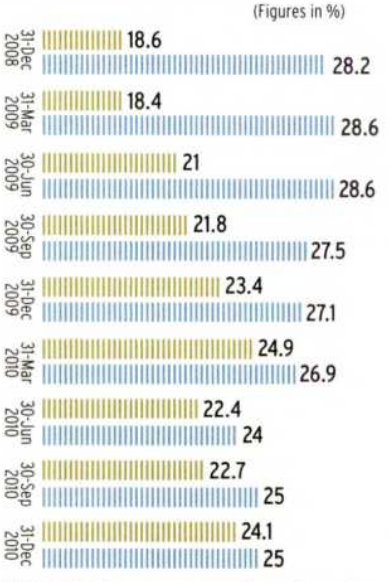
With a previously set rule, the remaining founders —CEO S. Kris Gopalakrishnan, Chief Operating Officer S.D. Shibulal and K. Dinesh— are scheduled to retire within four years at the most. One executive change should happen soon, with Shibulal replacing Gopalakrishnan at the top, and someone — possibly ICICI Bank's K.V. Kamath — replacing Murthy as chairman.

Gopalakrishnan and Shibulal declined comment.

Infosys has a three-tier leadership structure, with 50 people in the first tier (just below board of directors and a so-called executive council), around 150 in the second and up to 1,000 at the third level of leadership. Barney, who has worked with AT&T and Intel on their leadership programmes, thinks these numbers, determined in 2007 when Infosys had 72,241 people, need to be revisited. "For the same reasons that airlines don't let trainee pilots in the air, we don't want leaders to hurt themselves or others in complicated leadership situations," he says.

Infosys v/s TCS on margins

(Figures in %)



Source: Companies

Even as the transition gathers momentum, there is growing disquiet from the second rung, which believes the firm needs to be more assertive and aggressive. They now want to have a greater say and representation on the board. Already, members of the executive council, the crack team running $1-billion (₹4,600 crore) or larger business units, are looking for a broader role. One of them, Subhash Dhar, Infosys's head of sales and marketing, is tipped to get a board seat soon and others could follow. Both Infosys and Dhar declined to comment on this.

"There is divergence between established leaders who are defensive and looking to protect the business they have built over three decades, and new leaders," admits T.V. Mohandas Pai, HR and administration head. Pai also heads the Infosys Leadership Institute. "Founders have dominated the C-level for decades... established leaders get into a defensive mindset since they want to defend the value they have created," he adds, referring to the top management. Infosys, he believes, is at the juncture where fresh hands and minds are required. "Every 10 years, there is a need to refresh the management," he says. "There is a need for fresh thinking and greater risk taking within Infosys."

Insiders blame this inertia for some of the troubles Infosys faces today. The founders have been slow to spot broader changes in the industry that have been better exploited by key rivals such as No. 1 software exporter Tata Consultancy Services, or TCS, and Cognizant Technology Solutions. In a recent report, JP Morgan's Executive Director and

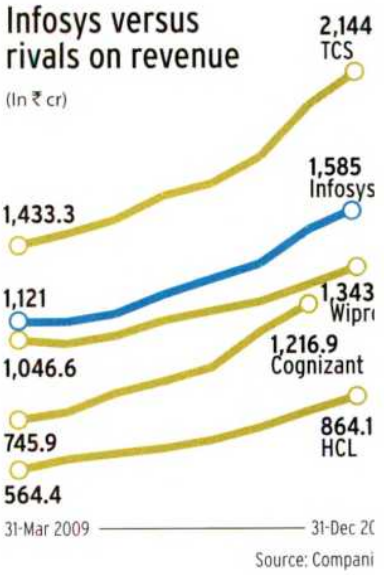
ILLUSTRATION BY SANTOSH

long-time Infosys watcher Viju George says the firm has under-invested in emerging opportunities in remote infrastructure management, software testing and BPO. "Infosys's infrastructure management top line grew 13.6 per cent in 2010, compared to 39.5 per cent for TCS, while its BPO business grew 17 per cent compared to 23 per cent for TCS," George observed in the report.

TCS acquired the BPO business of Citigroup for $505-million in 2008. TCS did not want to comment, but analysts tracking it say that, following the deal, its BPO revenues grew 11.9 per cent quarter on quarter compared to 5.9 per cent for Infosys.

Cognizant, too, has gained from acquisitions. For example, it acquired analytics firm MarketRx in 2007, when it had about $40 million in annualised revenue and 400 employees. Today, it earns around $100,000 per employee compared to an industry average of about $25,000. Cognizant's acquisition of the captive centre of banking giant UBS in 2009 at the height of the downturn earned it guaranteed revenues of $452 million over five years.

Infosys has shied away from making such game-changing moves. In October 2008, it walked away from a duel with HCL Technologies over German enterprise solutions



firm Axon. The deal resulted in plenty of fireworks internally with younger leaders seeing it as a springboard to larger and more profitable contracts. However, the seniors seemed to have prevailed, with top leaders, including CEO Gopalakrishnan and COO Shibulal sensing that the asking price of $70(million or more was too high. "We are not conservative; we were willing to put nearly $1billion on Axon," says Chief Financial Officer V. Balakrishnan. "We are focused on high-quality growth — higher revenue and profitability — and the best

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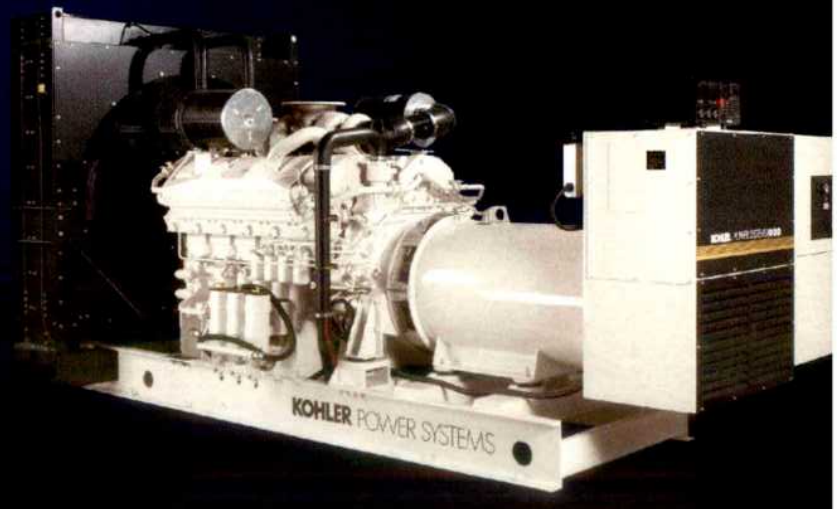

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margin by barely 200 basis points." Brand is not a differentiator any longer for winning contracts, he adds. According to JP Morgan, during the downturn, for the quarter ended December 2008, TCS reported revenues of $1.48 billion and pre-tax profits of $367 million. For the same period, Infosys had revenues of $1.17 billion while its profits were higher at $373 million. Since then, Infosys has faltered — in the next eight quarters, TCS's revenue and profit have grown at a compounded quarterly growth rate, or CQGR, of 4.7 per cent and 6.4 per cent, respectively. Infosys's revenue and profit have grown at a CQGR of 3.9 per cent and 3.2 per cent, respectively. (*See: http://bit.ly/infymargins*)

The Infosys top management is also wary of shifting too far away from core strengths — of being a high-margin outsourcer. Instead, it plans to morph itself into a provider of high-value, consulting-led solutions. It recently inked a deal with a consumer products firm to implement what it terms a "transformational SAP project", which will see it overhaul business processes and suggest ways to improve efficiency and streamline technology operations.

The project began with France and has gone live in the Americas. It will then go to Europe and the rest of the world. "Consulting and package implementation is a higher margin business for us," says Chandra Shekar Kakal, a member of the Infosys executive council. "It contributes about 26 per cent to our business and uses 16 per cent of the workforce."

Traditionally, Infosys got over half its business from conventional application development and maintenance — which is increasingly getting commoditised. "We have no desire to become the largest low-cost provider of low-cost services," says Pai. Instead, the overhaul plan will have just a third of revenues coming from this legacy business, and the rest from long-term, consulting-led projects and intellectual property-centric products and solutions. While it gets a quarter of revenues from enterprise solutions and consulting, its newer initiatives around intellectual property initiatives account for only six to eight per cent of revenues.

Infosys's deal with an unnamed Swiss manufacturing giant provides clues as to how it has evolved and will continue to change. The Swiss company grew its business through a series of acquisitions that left it saddled with 18 technology platforms across 40 countries. It wanted to bring this down to two platforms, and asked Infosys to identify which ones to junk and how to throw away an old, complicated structure, and invent a new, lean one.

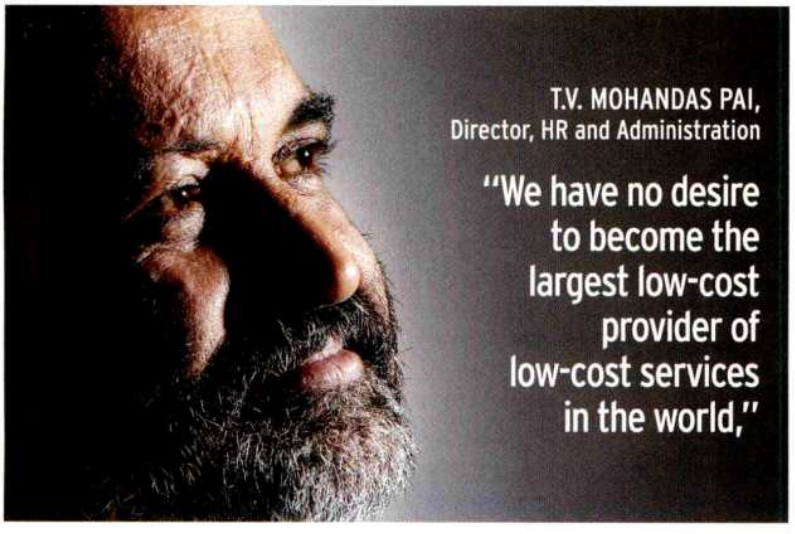
"Clients did not want to be in the same situation as two years ago," says B.G. Srinivas, head of manufacturing practice. "When business demand fell, many of them were unable to quickly reduce costs."

Pai says Infosys has not missed much and has built its consultants base to over 3,500. It plans to increase this to around 10,000 in the next few years. "We will hire 1,000 consultants, billing in excess of $150 an hour compared to under $100 for plain vanilla software programmers," Pai says. "We will get 40 per cent of them internally and hire the rest."

Infosys is also perhaps a victim of its own sterling growth. The firm expects to increase its revenues by 26 per cent in 2010/11 and says this can be sustained in the long term. According to a recent report by CLSA, a Mumbai-based brokerage, Infosys will need to earn around $3.5 billion in new revenues to sustain an annual growth rate of 25 per cent.

The internal R&D team, which has grown from 770 to 1,104 heads in the past couple of years, is working out new projects to de-link revenues and growth. For example, the banking software product contributes about five per cent to its revenues today. ShoppingTrip360, a platform offering retailers insights on their customers' purchases, is being run across nine trial projects, while Flypp, a pay-per-use application platform, was first used by Aircel. Similar products are being developed for 10 other mobile services firms.

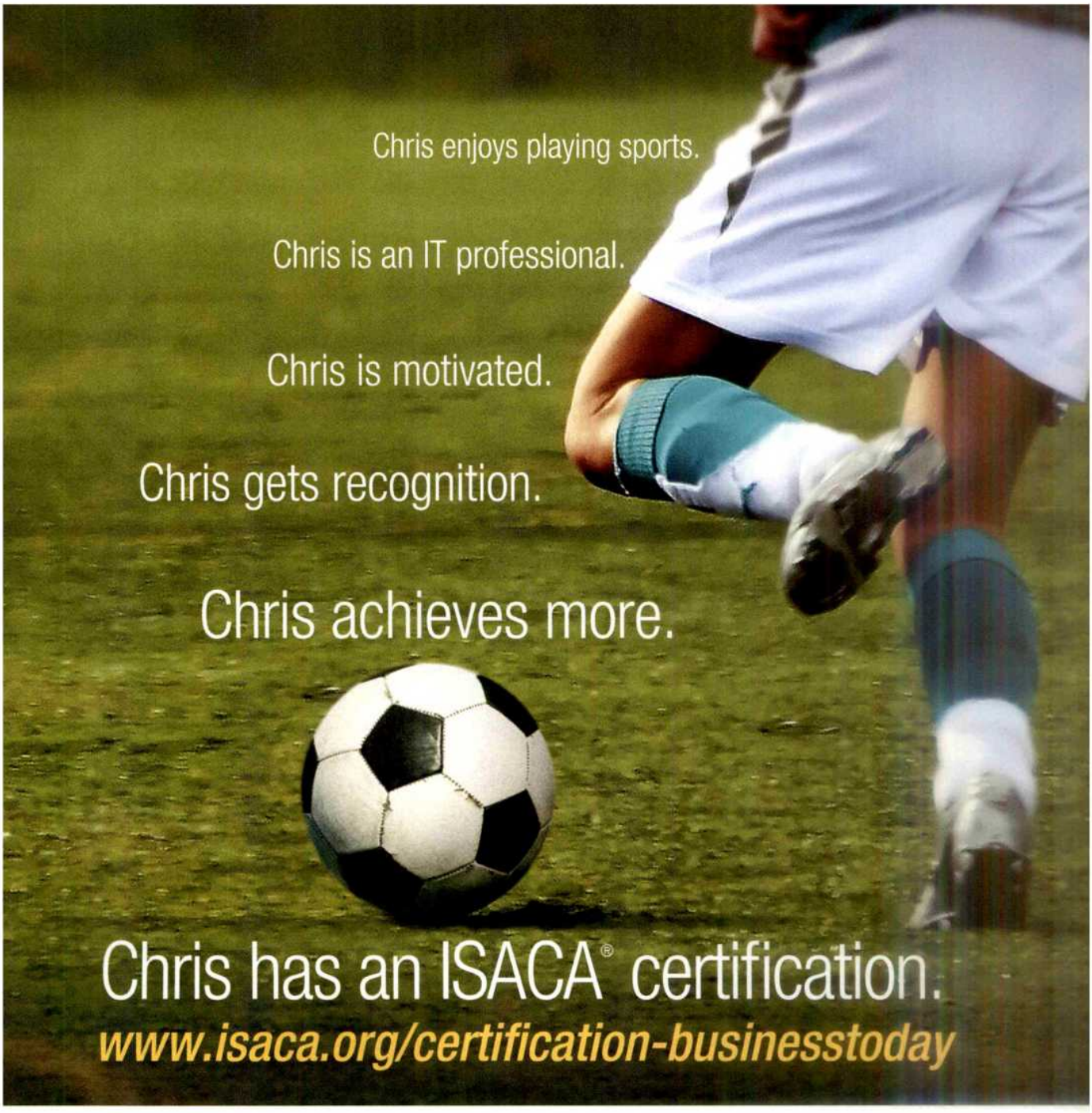
Infosys still has a steep climb ahead. With a leadership shuffle in the works and the industry in a flux, there is more pain on the way for Indian IT's best-recognised brand. ◆



DEEPAK G. PAWAR

T.V. MOHANDAS PAI,
Director, HR and Administration

"We have no desire to become the largest low-cost provider of low-cost services in the world,"



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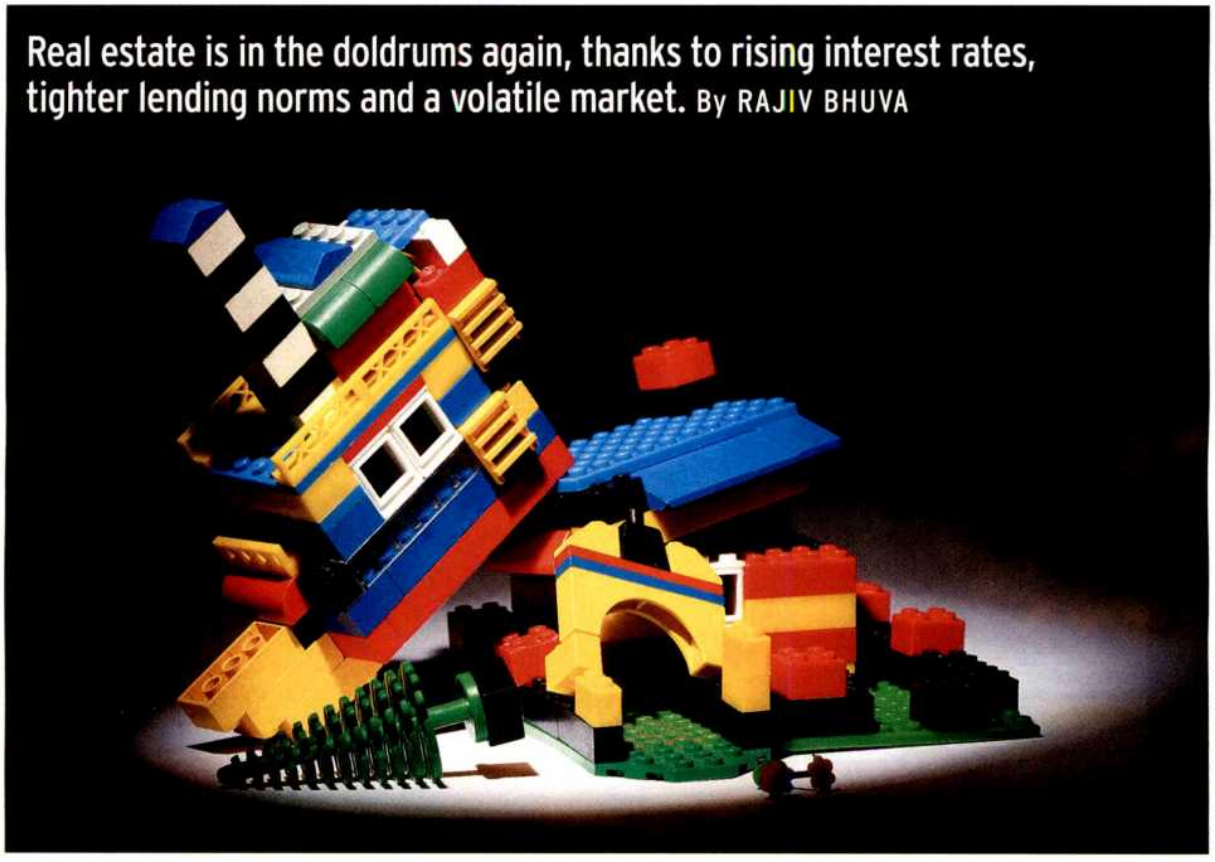
On Shaky Ground

Real estate is in the doldrums again, thanks to rising interest rates, tighter lending norms and a volatile market. By RAJIV BHUVA



SAPTARISHI BISWAS

Just when it seemed the real estate sector was set to boom again, it has been dealt a series of severe body blows. When the global financial crisis of 2008/09, which had hit construction badly, ended, and liquidity returned to the market, builders prepared to celebrate. There were even a few initial public offerings, or IPOs, from players such as Oberoi Realty and Prestige Estates Projects.

Then last November came the bribe-for-loan scam. The CBI arrested eight senior executives of top financial institutions such as LIC Housing Finance, Bank of India, Central Bank of India and Punjab National Bank on charges of accepting bribes for sanctioning big-ticket loans. In a knee-jerk reaction, the Reserve Bank of India tightened the provisioning norms for real estate sector lending, and reduced the maximum amount banks can lend to home buyers to 80 per cent from 85 per cent previously.

Alongside, overheated markets, a sliding Sensex and rising interest rates over the past year have made matters worse. The IPO window is now firmly shut, listed real estate stocks are taking a beating and tighter lending norms by banks have made capital scarce. Money is not cheap even if it is available.

Has the sector lost the buzz? "Nothing has been positive for the industry since November," says Mumbai-based real estate consultant Nilesh Parekh. Even though the scam was confined to a few institutions and individuals, it was a severe blow for the entire sector, which has now come under increased scrutiny from the government and RBI. Mobilising resources has become a challenge for developers as banks think twice before lending to them.

Interest rates have been inching up as a result of the RBI efforts to tame inflation through tighter monetary policy actions. Over the past 12 months, the apex bank has hiked key rates eight times, with the latest one on March 17 seeing a hike of 25 basis points in repo and reverse repo rates. "From 15 to 17 per cent, interest rates for developers have shot up to 20 to 22 per cent in less than three quarters," says Harresh Mehta, Managing Director

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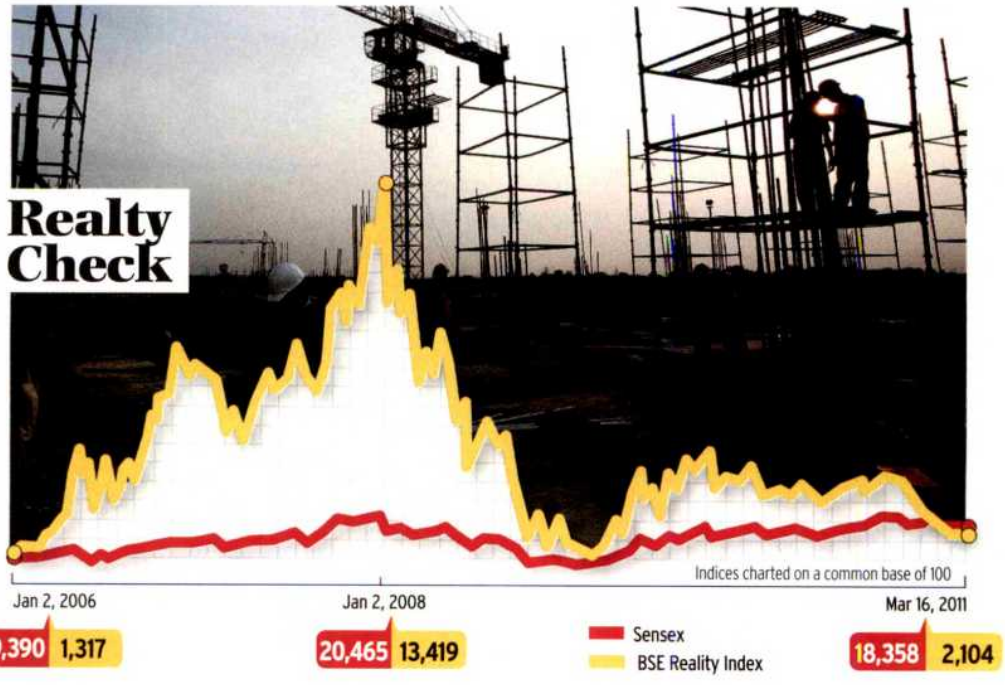


of Rohan Lifescapes, a Mumbai-based real estate player.

"Higher interest rates are a double whammy for real estate companies," explains Prakash Agarwal, an analyst with RBS Securities, India. There is an incremental impact on the top line because higher rates keep buyers away. The bottom line also takes a hit as higher interest payments affect operating and net incomes. "In case of leveraged players, 50 to 80 per cent of the operating income goes towards loan servicing," says Agarwal.

For the quarter ended December 2010, interest expenses of companies on the BSE Realty Index rose to ₹564 crore from ₹402.37 crore in December 2009 — a whopping 40.26 per cent jump. Total income for the period declined 6.3 per cent, from ₹3747 crore in December 2009 to ₹3,511 crore in December 2010.

Costly Loans, Shrinking Sales

Debt is a big worry, too, for builders. The ₹25,000-crore debt — which the RBI allowed to be restructured following the slowdown — is due for repayment. Mayur Shah, Managing Director of Mumbai-based developer Marathon Group, points out that though funding is available to those with good track records, the cost of funds has gone up across the industry. And that means a vicious cycle of lower lending at higher rates.

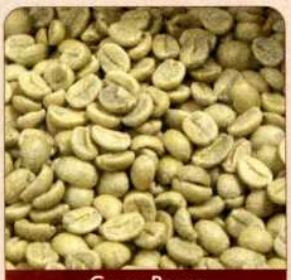
Shrinking sales volumes are also adding to the woes. Many ongoing projects are stuck midway, with buyers shying away because of exorbitant prices. This has hit the cash flows of companies. Some experts believe developers will have to reduce prices if they want to raise liquidity.

"The residential market is not expected to revive unless prices correct," says Pranab Datta, Vice Chairman and Managing Director, Knight Frank (India), an independent global residential and commercial property consultancy. Most observers feel that heated markets like Mumbai and Delhi could see a correction of around 20 per cent over the next six months. Prices inching above the peak levels of 2007 in Mumbai and Delhi NCR has been a matter of concern. With sales volumes shrinking, developers will have to clear inventories and reduce prices as well. There is turmoil in some residential markets like Chennai and Gurgaon, notes Datta. "Volumes have come down due to higher prices," he says.

Not everyone agrees that the situation is desperate or that there is no option but to cut prices if sales are to improve. "Developers are looking at other avenues," says Prakash Kalothia, CEO and MD, Sun-Apollo Real Estate Advisors, managers of a $630-million (₹2,898-crore) real estate private equity, or PE, fund. In January, Kalothia's

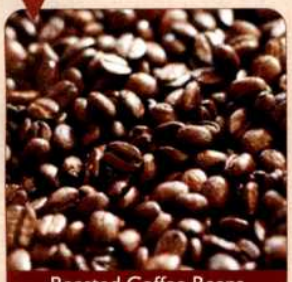
"Funding is available to those with good track records, but cost of funds has gone up"

MAYUR SHAH, Managing Director, Marathon Group



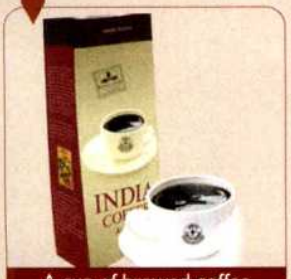
Green Beans

Coffee Roasting Machine



Roasted Coffee Beans

Coffee Grinding Machine



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Oberoi Realty	260	237	-8.7 ▼
Jaypee Infratech	102	57	-43.9 ▼
Nitesh Estates	54	24	-55.7 ▼
DB Realty	468	113	-75.9 ▼
Godrej Properties Ltd.	490	600	22.5 ▲
Brigade Enterprises	390	92	-76.4 ▼
Kolte Patil Developers	145	47	-67.7 ▼
Puravankara Projects	400	105	-73.8 ▼
Omaxe	310	133	-57.0 ▼
HDIL	500	160	-68.1 ▼
Orbit Corporation	110	49	-55.2 ▼
DLF	525	227	-56.9 ▼
Ackruti City	540	229	-57.7 ▼
Sobha Developers	640	262	-59.1 ▼
Parsvnath Developers	300	38	-87.4 ▼
DS Kulkarni Developers	275	55	-79.9 ▼

Stock prices in ₹ Source: BSE, NSE, Prowess

fund picked up a 49.9 per cent stake for ₹100 crore in a Parsvnath Developers project. Earlier, in December 2009, it picked up 50 per cent in another Parsvnath project for ₹75 crore. Red Fort Capital acquired 26 per cent in a venture of Ansal Projects and Infrastructure for ₹200 crore in February 2011. "The market is more attractive now compared to six months ago even though the outlook has turned bearish," says V. Hari Krishna, Director, Kotak Realty Fund, one of India's first PE funds with $850 million in assets under its management.

Will PE investors be the new messiahs for cash-starved real estate companies? "There is value on the table in most markets and many investors are in the process of closing deals," adds Krishna.

But the picture is not as rosy as Krishna paints. Generally, it takes up to six months for a PE investor to get onboard a real estate investment, but this time the going is slower. "There is no incentive to push the deal faster," says Sunil Mantri, Chairman of Mumbai-based developer Sunil Mantri Group. Mantri is negotiating with a foreign PE investor for a ₹250-crore infusion. Talks have been on for over four months, and it may take another three months for the deal to come through.

In fact, PE investors are making the best of the current opportunity. Unlike a straightforward equity investment, where investors bear the development and price risk of the project, PE players are pushing across hybrid structures, says a consultant on condition of anonymity. "PE investors are looking for higher safety and higher returns by front-loading a debt-like investment which follows equity participation at a later stage," he explains.

After the global financial crisis, qualified institutional buyers, or QIBs, pumped in over ₹10,000 crore into listed firms. "But the scenario was different then," says an analyst with a brokerage. With steep correction across broader markets, there was value for investors, he adds. But at present, almost all realty stocks that went public since 2006 are trading below the issue price. "Investors have lost money and volatility in these stocks is high," says Sun-Apollo's Kalothia.

No IPOs for Now

Over a dozen realty players like Lodha Developers and Raheja Universal have filed prospectuses and received a regulatory nod to tap the market. "But the mood is sombre given the ongoing weak market sentiments," says an investment banker, who liaises on real estate investments.

Further, excessive liabilities on the balance sheets remain a problem. Almost all the companies lining up to tap the primary market would want to use part of the IPO proceeds to repay loans. "We are living in interesting times," says Ved Prakash Arya, CEO of Milestone Capital Advisors, a real estate-focused PE fund management company.

Repayment of restructured loans in the next three months is another area of concern. "This will tighten liquidity," says Mantri. Developers may go slow on new projects to control cash flows or try to generate own funds from retail sales. "This is a wait-and-watch phase," says Mehta of Rohan Lifescapes. According to Marathon's Shah, "These are cyclical challenges." He says the prevailing rates are average of what prevailed in the past 10 years. "The only exception was 2007/08 when we saw single-digit rates."

Back to Nilesh Parekh. "Everything is on shaky ground for now." It will be sometime before the sector returns to normal again. ◆

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RAJAT BARAN

Into the Headwind

A spurt in input costs and interest expenses is eroding the profit margins of corporate India. By RAJIV BHUVA

The stock markets have been bracing for a slowdown of the Indian economy for a while and now it is obvious that Dalal Street's fears were not unfounded. The growth story seems to be running out of fuel, as borne out by the performance of corporate India.

An analysis of the top 100 companies in the BT 500 is revealing. With income growth of little over 16 per cent and operating and net profit growth of 11 and 13 per cent, respectively, in the December quarter, there is little to cheer about. "The bumper quarters are behind us," says New Delhi-based Jagannadham Thunuguntla, Head of Equities at SMC Capital. "There is a squeeze on profit margins with competition scaling up."

For the 100 companies analysed, growth in raw material costs, at 17 per cent, in the quarter ended December outpaced income growth. Prices of key raw materials such as aluminium, rubber, coking coal, steel and iron ore shot up due to rising demand and supply constraints. And analysts expect higher raw material costs to exert pressure on margins over the next few quarters as well. Generally, manufacturing companies hold only two month inventories and commodity prices have surged from December. A recent spurt in oil prices, which crossed $110 a barrel, due to unrest in West

Winners and Losers

A few companies in BT500 have delivered despite the odds. A larger number have not

LEADERS

INCOME	DEC 2010*	YoY CHANGE (%)
IRB Infra. Developers	73	1,271
GMR Infrastructure	150	190
Adani Power	539	131

NET PROFIT	DEC 2010*	YoY CHANGE (%)
Sterlite Industries (India)	316	14,347
IRB Infra. Developers	7	874
GMR Infrastructure	17	114

*In ₹ crore

LAGGARDS

INCOME	DEC 2010*	YoY CHANGE (%)
Adani Enterprises	719	-75
Piramal Healthcare	376	-49
Pantaloon Retail (India)	1,028	-46

NET PROFIT	DEC 2010*	YoY CHANGE (%)
ABB	7	-94
Reliance Capital	5	-89
Ranbaxy Laboratories	55	-89

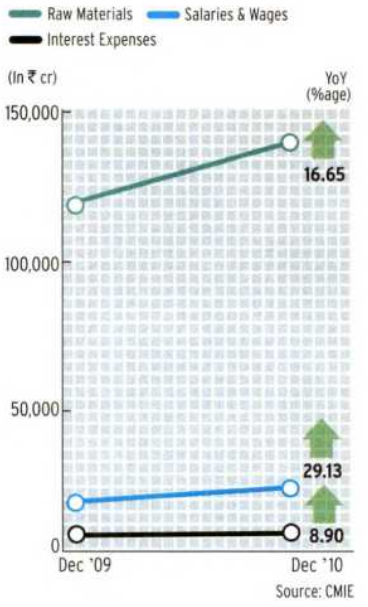
Asia, is adding to the woes.

And to make matters worse, salary and wage costs for these companies grew by a whopping 29 per cent. "We are playing a catch-up game," says Rakesh Arora, Head of Research at Macquarie Capital Securities India. The availability of skilled manpower is a serious constraint and that is putting pressure on corporate India's wage bill, he says. Gaurav Dua, Head of Research at Sharekhan, points out that many information technology, or IT, companies have given out-of-turn hikes to employees in the current financial year. "They did not build the necessary bench strength in the slowdown phase," says Dua.

Another problem for companies is rising interest expenses. For the top 100 companies, excluding banks, interest expenses saw a year-on-year jump of nine per cent in December 2010. "Companies which are leveraged are vulnerable to higher interest costs," says Thunuguntla.

According to a separate study on companies across 23 industries by CRISIL Research, a Mumbai-based independent research house, the revenue growth is expected to be higher on a year-on-year basis in the coming quarters, while operating profit margins are forecast to be lower. "Intense competition is limiting the pricing power of corporates and players are being forced to largely absorb the rise in input costs," explains Nagarajan Narasimhan, Director of CRISIL Research, in a paper released in mid-March. Input cost pressures, then, will be more pronounced in the current and ensuing quarters for Indian companies.

Difficult Terrain



Source: CMIE

These pressure points for corporates are clouding the macroeconomic outlook for India. The Index of Industrial Production, or IIP, growth estimate for January 2011, at 3.7 per cent, was the third consecutive month of below four per cent growth. And at 8.2 per cent, gross domestic product, or GDP, estimate for the quarter ended December 2010 is lower compared to 8.9 per cent growth estimates for the previous two quarters of 2010/11.

The road ahead will be bumpy as well with the Reserve Bank of India, or RBI, expected to persist with a high interest rate regime. Policymakers, then, may settle for lower growth rates in an attempt to tame inflation. Finance Minister Pranab Mukherjee's nine per cent growth target for the Indian economy in 2011/12 may well be out of reach. ◆

Password Impasse

An anti-fraud measure has online merchants fuming. By ANIKA GUPTA

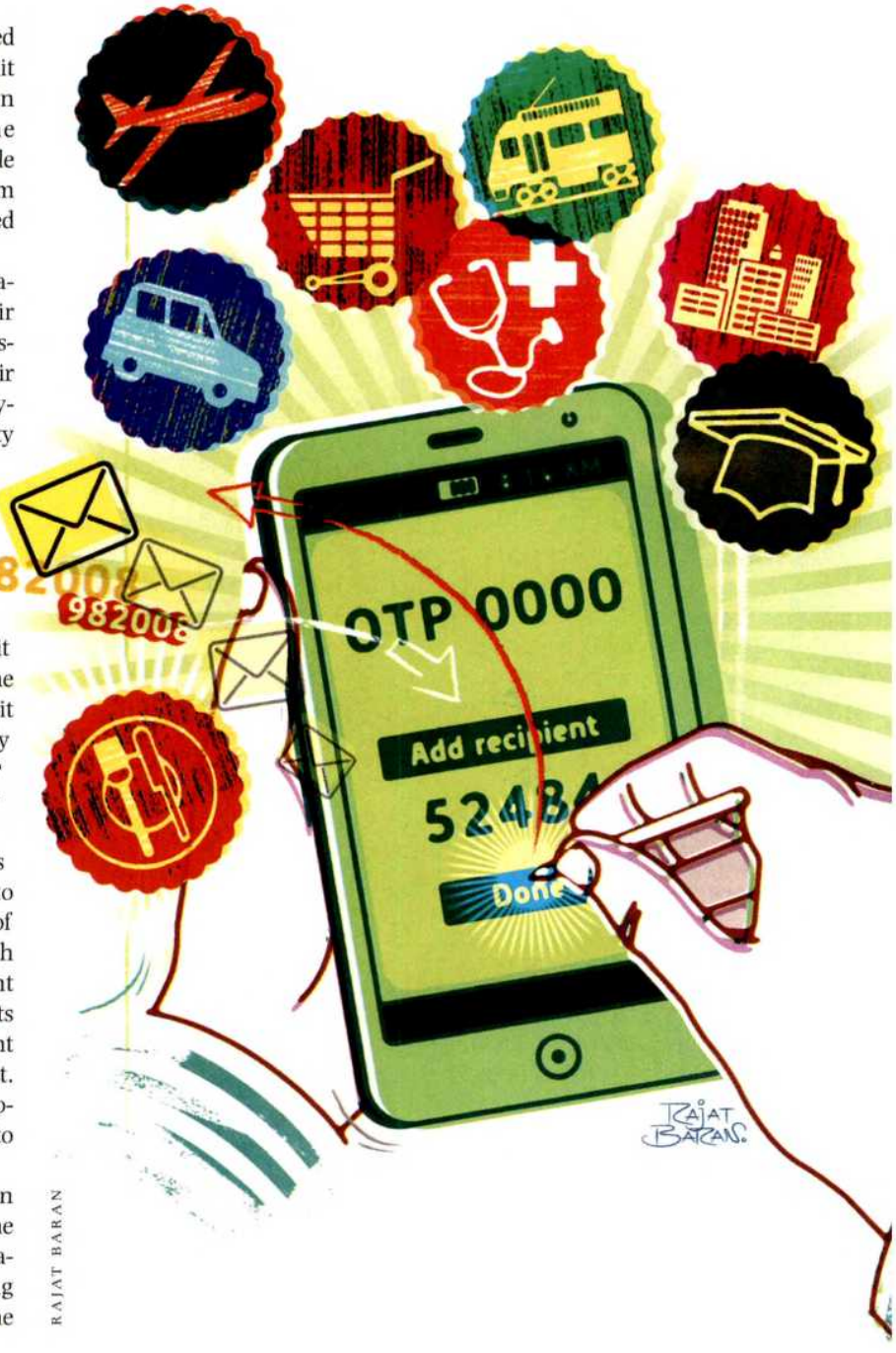
The latest measure enforced by the RBI to check credit card fraud has led to an immediate drop in the number of people using their mobile phones to make payments, claim several retailers who are dissatisfied with the measure.

The new rules make it mandatory for customers who use their phones to carry out financial transactions that call for revealing their credit card numbers — such as buying an airline ticket or paying a utility bill — to also clear an additional security layer before the transaction is processed.

This new security layer is the one time password, or OTP. When a customer starts a transaction, the bank that issued his credit card automatically texts a one time password to the mobile number it has on file for that customer. Only after the customer repeats the OTP successfully, is the payment order validated.

Sounds simple, but customers are fumbling with it. According to Hrush Bhatt, one of the founders of travel portal Cleartrip.com, which launched a mobile phone payment gateway six months ago, payments through this mode fell by 73 per cent the day after OTP came into effect. Two months later, payments by mobile are still half of what they used to be before the order.

"The process of generating an OTP is painful, inconsistent and prone to failure," says Bhatt. "Early indications are that it is not the best thing for either users or merchants. If the



RAJAT BARAN

password does not arrive immediately when the customer is making his payment, he usually hangs up and never calls again."

Bhatt also points out that the system could inconvenience customers with more than one mobile phone, since only one mobile number can be registered with the credit card company.

Gautam Shiknis, CEO of mobile payment provider mChek, confirms that mobile transactions through his company's gateway have fallen to half of what they used to be.

"Right now mobile payment has become a very cumbersome process," he says.

Search for Security

The concerned RBI circular to the banks — whose draft was first sent out nearly a year ago — directed them to start using a security system called Two Factor Authentication, or TFA, for all transactions conducted, using a technology called Interactive Voice Response, or IVR. This technology forms the backbone of most phone payment systems.

What exactly is TFA? It requires that for any credit card transaction where the credit card holder is not physically present to hand over his card — that is, during online or mobile phone payments — he must provide not only his credit card details but also one more piece of information not recorded on his credit card. It is akin to asking a customer, even when he presents his credit card in person, to show his photo ID and confirm he is indeed the one to whom the credit card belongs.

"The idea is to match what you have (a credit card) against what you know (the one time password)," explains Shiknis.

For payments made using the Net, RBI started insisting on TFA nearly two years ago. Accordingly, Visa and MasterCard introduced an additional security layer — VerifiedbyVisa and Securecode, respectively — which require customers to register a separate personal identification number, or PIN, for online transactions. Cleartrip's Bhatt says his portal saw a sudden fall in purchases over the Net — although not quite as drastic — at the time as well, although sales eventually did recover.

The apex bank has similar guidelines for mobile banking, too. But so far payments through mobiles had been left out.

Mobile-linked payments are different from those made online because the keyboard in most mobiles is limited and cannot produce the range of alphanumeric passwords — including symbols and special characters that make them difficult to crack — that a computer keyboard can.

The idea that online merchants should ask for a second form of identification was first proposed by a regulatory agency in the United States in 2005. Since then, many other countries and international agencies have followed suit and made it mandatory. The intention globally has been the same: to check fraudsters from making purchases using someone else's credit card number.

HOW THE ONE TIME PASSWORD WORKS

Step 1
The consumer decides to buy a plane ticket online. He calls up the vendor's call centre to place his order

Step 2
The call is taken by an operator or a pre-recorded message asks the customer to enter his credit card number, its expiry date, and the code on the back of the card

Step 3
While the customer waits, a message goes to the bank, asking it to release a one time password to the mobile number it has on file for the customer

Step 4
The consumer receives a text message from the bank with his one time password, which he provides to the call centre

Step 5
The purchase is processed

At present, mobile payments are a tiny fraction of the total payments market. At Cleartrip, for instance, even before the guideline came into effect, mobile payments made up barely 10 per cent of the site's transaction volume.

But many reports suggest this segment is set to grow enormously in coming years. Nearly 75 per cent of Indian respondents to a recent survey by Accenture said they would be interested in making mobile payments, which put the Indians globally second only to the Chinese in their enthusiasm for this particular form of payment.

As India's demand for alternative methods of payment has grown, so has the number of security systems available. Many banks, for instance, operate several different TFA gateways simultaneously, striving to keep their systems user-friendly, even while complying with the Reserve Bank's guidelines.

Simpler Solutions

"We're likely to introduce a system where customers can pre-request an OTP that will be good for several hours," says Suresh Sethi, president of the transaction banking group at YES Bank. "We're calling a dynamic PIN. It's the simplest system and also provides the best experience."

YES Bank plans to roll out its own TFA system for IVR transactions soon, and has evaluated several different systems before choosing one.

Most banks have already opted for some variation of a dynamic PIN, but each bank has a slightly different system. Some provide a password in the middle of the transaction. Sethi says YES Bank discarded this system because not all customers can view their SMS inbox while making calls.

Before the OTP system was introduced, mChek used to ask customers for a PIN for their mobile transactions, which had been provided to them earlier. But the PIN stayed the same for every financial transaction, much like the PIN a cardholder uses at an ATM stays the same. If a fraudster, making a purchase over a mobile phone while impersonating another person, were to equip himself beforehand with the PIN of that person as well, he would slip through this security layer.

> "The one time password the banks are currently using is painful, inconsistent and prone to failure. Early indications are that it's not the best thing for users or merchants"
>
> **HRUSH BHATT**
> Founder, Cleartrip.com

UMESH GOSWAMI

Experts also point out that even if mobile payments technology gets more sophisticated, developing systems far more advanced than IVR, security concerns will always remain.

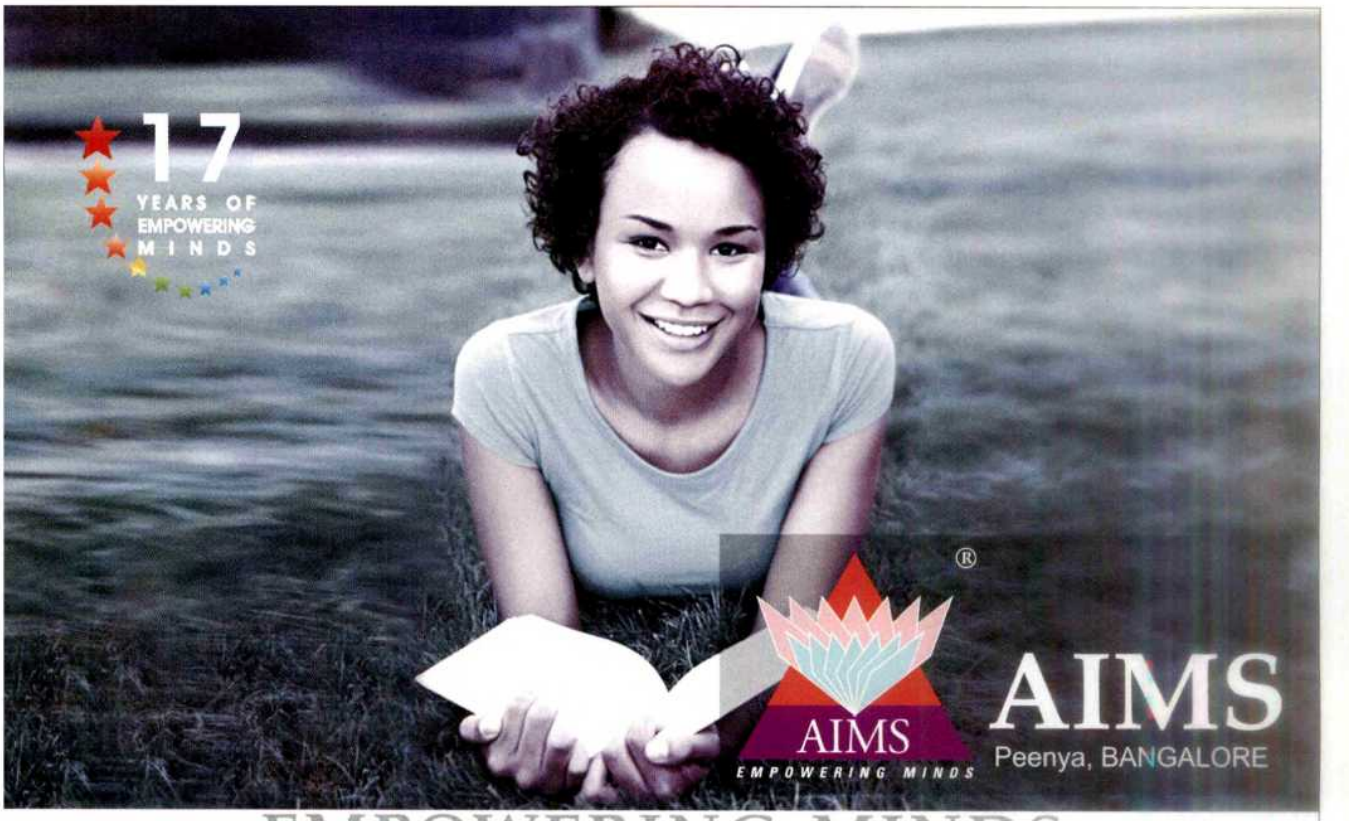
"Security is a key concern for anyone looking at mobile payments," says Ashok Jhunjhunwala, a professor at the Indian Institute of Technology, Madras, who is also Chairman of the Mobile Payment Forum of India. "While the one time password may be a good solution, there are also other technologies, like voice recognition, that are more interesting."

Even Bhatt and Shiknis acknowledge the need for greater security and support the idea of additional verification, while opposing the specific step RBI has taken.

Whatever the problems faced by online merchants, RBI has no plans to reconsider its TFA guidelines yet. "Banks are working out the best way to implement them," says an RBI spokesperson, confirming that the guidelines were there to stay.

The currently tiny base of mobile payments in India might be a saving grace. "Because the base is so small, nobody minds a little experimentation," says Shiknis.

"I'm not as concerned about a payment drop in 2011, I'm concerned about 2015. At that point, we will have TFA, but I don't think the one time password will still be the way to go." ◆



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The Six Mistakes Executives Make in Risk Management

Black Swan events are almost impossible to predict. Instead of perpetuating the illusion that we can anticipate the future, risk management should try to reduce the impact of the threats we don't understand.

By NASSIM N. TALEB, DANIEL G. GOLDSTEIN and MARK W. SPITZNAGEL

WE DON'T LIVE in the world for which conventional risk-management textbooks prepare us. No forecasting model predicted the impact of the current economic crisis, and its consequences continue to take establishment economists and business academics by surprise. Moreover, as we all know, the crisis has been compounded by the banks' so-called risk-management models, which increased their exposure to risk instead of limiting it and rendered the global economic system more fragile than ever.

Low-probability, high-impact events that are almost impossible to forecast — we call them Black Swan events — are increasingly dominating the environment. Because of the Internet and globalisation, the world has become a complex system, made up of a tangled web of relationships and other interdependent factors. Complexity not only increases the incidence of Black Swan events but also makes forecasting even ordinary events impossible. All we can predict is that companies that ignore Black Swan events will go under.

Instead of trying to anticipate low-probability, high-impact events, we should reduce our vulnerability to them. Risk management, we believe, should be about lessening the impact of what we don't understand — not a futile attempt to develop sophisticated techniques and stories that perpetuate our illusions of being able to understand and predict the social and economic environment.

To change the way we think about risk, we must avoid making six mistakes.

RAJAT BARAN

1

We think we can manage risk by predicting extreme events.

This is the worst error we make, for a couple of reasons. One, we have an abysmal record of predicting Black Swan events. Two, by focusing our attention on a few extreme scenarios, we neglect other possibilities. In the process, we become more vulnerable.

It's more effective to focus on the consequences — that is, to evaluate the possible impact of extreme events. Realising this, energy companies have finally shifted from predicting when accidents in nuclear plants might happen to preparing for the eventualities. In the same way, try to gauge how your company will be affected, compared with competitors, by dramatic changes in the environment. Will a small but unexpected fall in demand or supply affect your company a great deal? If so, it won't be able to withstand sharp drops in orders, sudden rises in inventory, and so on.

In our private lives, we sometimes act in ways that allow us to absorb the impact of Black Swan events. We don't try to calculate the odds that events will occur; we only worry about whether we can handle the consequences if they do. In addition, we readily buy insurance for health care, cars, houses, and so on. Does anyone buy a house and then check the cost of insuring it? You make your decision after taking into account the insurance costs. Yet in business we treat insurance as though it's an option. It isn't; companies must be prepared to tackle consequences and buy insurance to hedge their risks.

We are convinced that studying the past will help us manage risk.

Risk managers mistakenly use hindsight as foresight. Alas, our research shows that past events don't bear any relation to future shocks. World War I, the attacks of September 11, 2001 — major events like those didn't have predecessors. The same is true of price changes. Until the late 1980s, the worst decline in stock prices in a single day had been around 10 per cent. Yet prices tumbled by 23 per cent on October 19, 1987. Why then would anyone have expected a meltdown after that to be only as little as 23 per cent? History fools many.

You often hear risk managers — particularly those employed in the financial services industry — use the excuse "This is unprecedented." They assume that if they try hard enough, they can find precedents for anything and predict everything. But Black Swan events don't have precedents. In addition, today's world doesn't resemble the past; both interdependencies and nonlinearities have increased. Some policies have no effect for much of the time and then cause a large reaction.

People don't take into account the types of randomness inherent in many economic variables. There are two kinds, with socioeconomic randomness being less structured and tractable than the randomness you encounter in statistics textbooks and casinos. It causes winner-take-all effects that have severe consequences. Less than 0.25 per cent of all the companies listed in the world represent around half the market capitalisation, less than 0.2 per cent of books account for approximately half their sales, less than 0.1 per cent of drugs generate a little more than half the pharmaceutical industry's sales — and less than 0.1 per cent of risky events will cause at least half your losses.

Because of socioeconomic randomness, there's no such thing as a "typical" failure or a "typical" success. There are typical heights and weights, but there's no such thing as a typical victory or catastrophe. We have to predict both an event and its magnitude, which is tough because impacts aren't typical in complex systems. For instance, when we studied the pharmaceuticals industry, we found that most sales forecasts don't correlate with new drug sales. Even when companies had predicted success, they underestimated drugs' sales by 22 times! Predicting major changes is almost impossible.

Because of socioeconomic randomness, **there's no such thing as a "typical" failure or a "typical" success**

We don't listen to advice about what we shouldn't do.

Recommendations of the "don't" kind are usually more robust than "dos." For instance, telling someone not to smoke outweighs any other health-related advice you can provide. "The harmful effects of smoking are roughly equivalent to the combined good ones of every medical intervention developed since World War II. Getting rid of smoking provides more benefit than being able to cure people of every possible type of cancer," points out genetics researcher Druin Burch in *Taking the Medicine*. In the same vein, had banks in the US heeded the advice not to accumulate large exposures to low-probability, high-impact events, they wouldn't be nearly insolvent today, although they would have made lower profits in the past.

Psychologists distinguish between acts of commission and those of omission. Although their impact is the same in economic terms — a dollar not lost is a dollar earned — risk

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No one should have a piece of the upside **without a share of the downside**

managers don't treat them equally. They place a greater emphasis on earning profits than they do on avoiding losses. However, a company can be successful by preventing losses while its rivals go bust — and it can then take market share from them. In chess, grand masters focus on avoiding errors; rookies try to win. Similarly, risk managers don't like not to invest and thereby conserve value. But consider where you would be today if your investment portfolio had remained intact over the past two years, when everyone else's fell by 40 per cent. Not losing almost half your retirement is undoubtedly a victory.

Positive advice is the province of the charlatan. The business sections in bookstores are full of success stories; there are far fewer tomes about failure. Such disparagement of negative advice makes companies treat risk management as distinct from profit making and as an afterthought. Instead, corporations should integrate risk-management activities into profit centres and treat them as profit-generating activities, particularly if the companies are susceptible to Black Swan events.

4

We assume that risk can be measured by standard deviation.

Standard deviation — used extensively in finance as a measure of investment risk — shouldn't be used in risk management. The standard deviation corresponds to the square root of average *squared* variations — not average variations. The use of squares and square roots makes the measure complicated. It only means that, in a world of tame randomness, around two-thirds of changes should fall within certain limits (the −1 and +1 standard deviations) and that variations in excess of seven standard deviations are practically impossible. However, this is inapplicable in real life, where movements can exceed 10, 20, or sometimes even 30 standard deviations. Risk managers should avoid using methods and measures connected to standard deviation, such as regression models, R-squares, and betas.

Standard deviation is poorly understood. Even quantitative analysts don't seem to get their heads around the concept. In experiments we conducted in 2007, we gave a group of quants information about the average absolute movement of a stock (the mean absolute deviation), and they promptly confused it with the standard deviation when asked to perform some computations. When experts are confused, it's unlikely that other people will get it right. In any case, anyone looking for a single number to represent risk is inviting disaster.

5

We do not appreciate that what's mathematically equivalent is not psychologically so.

In 1965, physicist Richard Feynman wrote in *The Character of Physical Law* that two mathematically equivalent formulations can be unequal in the sense that they present themselves to the human mind in different ways. Similarly, our research shows that the way a risk is framed influences people's understanding of it. If you tell investors that, on average, they will lose all their money only every 30 years, they are more likely to invest than if you tell them they have a 3.3 per cent chance of losing a certain amount each year.

The same is true of airplane rides. We asked participants in an experiment: "You are on vacation in a foreign country and are considering flying a local airline to see a special island. Safety statistics show that, on average, there has been one crash every 1,000 years on this airline. It is unlikely you'll visit this

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part of the world again. Would you take the flight?" All the respondents said they would.

We then changed the second sentence so it read: "Safety statistics show that, on average, one in 1,000 flights on this airline has crashed." Only 70 per cent of the sample said they would take the flight. In both cases, the chance of a crash is one in 1,000; the latter formulation simply sounds more risky.

Providing a best-case scenario usually increases the appetite for risk. Always look for the different ways in which risk can be presented to ensure that you aren't being taken in by the framing or the math.

We are taught that efficiency and maximising shareholder value don't tolerate redundancy.

Most executives don't realise that optimisation makes companies vulnerable to changes in the environment. Biological systems cope with change; Mother Nature is the best risk manager of all. That's partly because she loves redundancy. Evolution has given us spare parts — we have two lungs and two kidneys, for instance — that allow us to survive.

In companies, redundancy consists of apparent inefficiency: idle capacities, unused parts, and money that isn't put to work. The opposite is leverage, which we are taught is good. It isn't; debt makes companies — and the economic system — fragile. If you are highly leveraged, you could go under if your company misses a sales forecast, interest rates change, or other risks crop up. If you aren't carrying debt on your books, you can cope better with changes.

Overspecialisation hampers companies' evolution. David Ricardo's theory of comparative advantage recommended that for optimal efficiency, one country should specialise in making wine, another in manufacturing clothes, and so on. Arguments like this ignore unexpected changes. What will happen if the price of wine collapses? In the 1800s many cultures in Arizona and New Mexico vanished because they depended on a few crops that couldn't survive changes in the environment.

• • •

One of the myths about capitalism is that it is about incentives. It is also about disincentives. No one should have a piece of the upside without a share of the downside. However, the very nature of compensation adds to risk. If you give someone a bonus without clawback provisions, he or she will have an incentive to hide risk by engaging in transactions that have a high probability of generating small profits and a small probability of blowups. Executives can thus collect bonuses for several years. If blowups eventually take place, the managers may have to apologise but won't have to return past bonuses. This applies to corporations, too. That's why many CEOs become rich while shareholders stay poor. Society and shareholders should have the legal power to get back the bonuses of those who fail us. That would make the world a better place.

Moreover, we shouldn't offer bonuses to those who manage risky establishments such as nuclear plants and banks. The chances are that they will cut corners in order to maximise profits. Society gives its greatest risk-management task to the military, but soldiers don't get bonuses.

Remember that the biggest risk lies within us: We overestimate our abilities and underestimate what can go wrong. The ancients considered hubris the greatest defect, and the gods punished it mercilessly. Look at the number of heroes who faced fatal retribution for their hubris: Achilles and Agamemnon died as a price of their arrogance; Xerxes failed because of his conceit when he attacked Greece; and many generals throughout history have died for not recognising their limits. Any corporation that doesn't recognise its Achilles' heel is fated to die because of it. ◆

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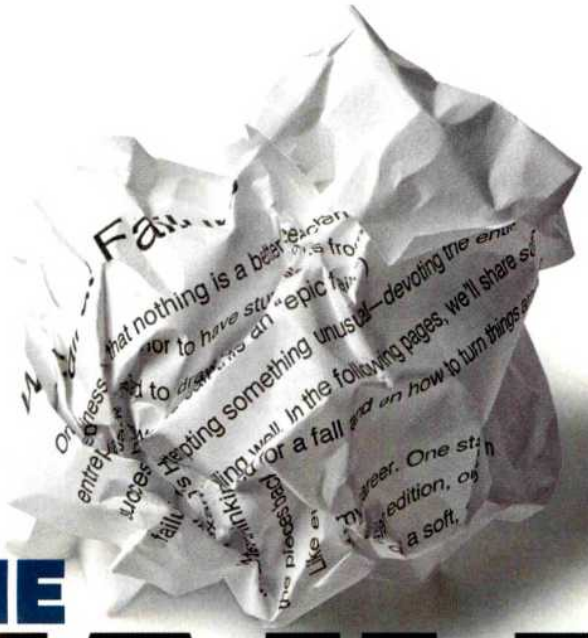

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Mapping Your Fraud Risks

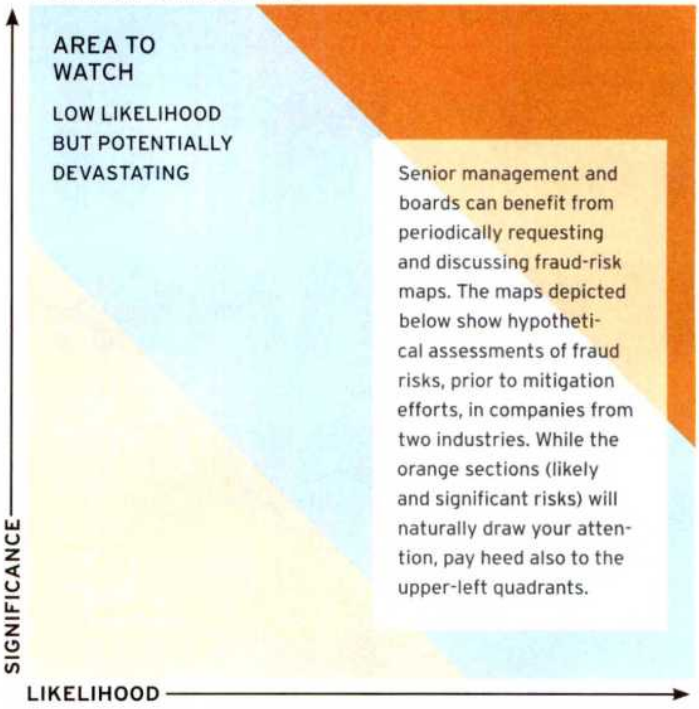
By TOBY J.F. BISHOP and FRANK E. HYDOSKI

The world is awash in increasingly varied, sophisticated, and dangerous fraud schemes. Although companies have become quite good at managing predictable, lower-level risks, many have a false sense of security about their ability to anticipate and deal with more hazardous threats. Senior executives and directors need to be aware of their companies' vulnerability to serious fraud, yet they may be out of the loop because risk assessment is frequently handled further down the chain of command and captured in voluminous, hard-to-penetrate spreadsheets and databases.

A great way for risk managers to communicate with their firms' leaders is to plot on a simple heat map the likelihood and significance of various types of fraud at the organisation. A heat map can focus senior executives and the board on unlikely but potentially devastating risks that merit (but often don't receive) board-level attention — so-called Black Swan events, such as the recent Madoff case and the rogue trading that cost Société Générale more than $7 billion.

Toby J.F. Bishop *is the Chicago-based director of the Deloitte Forensic Center and* **Frank E. Hydoski** *is the New York-based leader of the Analytic and Forensic Technology practice, both at Deloitte Financial Advisory Services. This article was published in* Harvard Business Review, *October 2009.* *Copyright © 2009 Harvard Business School Publishing Corporation. All rights reserved.*

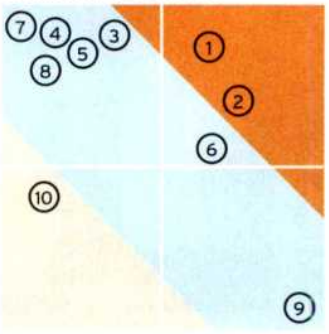
HEAT MAP STRUCTURE



- What are the unlikely but potentially most dangerous fraud risks at your organisation?
- How would you know if schemes were actually under way?
- What is being done to prevent them?

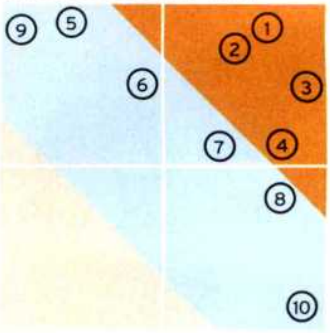
Ideally, fraud-risk heat maps are built through collaboration among people at many levels and across functions, and they represent a consensus about the financial, regulatory, and reputational impacts that specific kinds of fraud could create. The maps here illustrate how fraud risks can vary dramatically from one firm to the next. Your company's map might look quite different, could identify more risks, and would change over time.

MULTINATIONAL DIVERSIFIED BANK



1) Manipulation of loan loss reserves
2) Mortgage fraud
3) Securitisation fraud
4) Sanctions violations – wire transfer stripping
5) FCPA violations
6) Insider loan fraud
7) Rogue trading
8) Insider trading
9) Theft of funds – cashiers
10) Theft of funds – transfers

US CONSUMER PRODUCTS COMPANY



1) Falsification of loan covenant compliance
2) Overstatement of revenues
3) Overstatement of inventory
4) Diversion of cash – accounts payable schemes
5) FCPA violations
6) Purchasing kickbacks with vendor overpricing
7) Diversion of cash – accounts receivable schemes
8) Theft of inventory
9) Concealment of product quality/safety issues
10) False T&E expense claims

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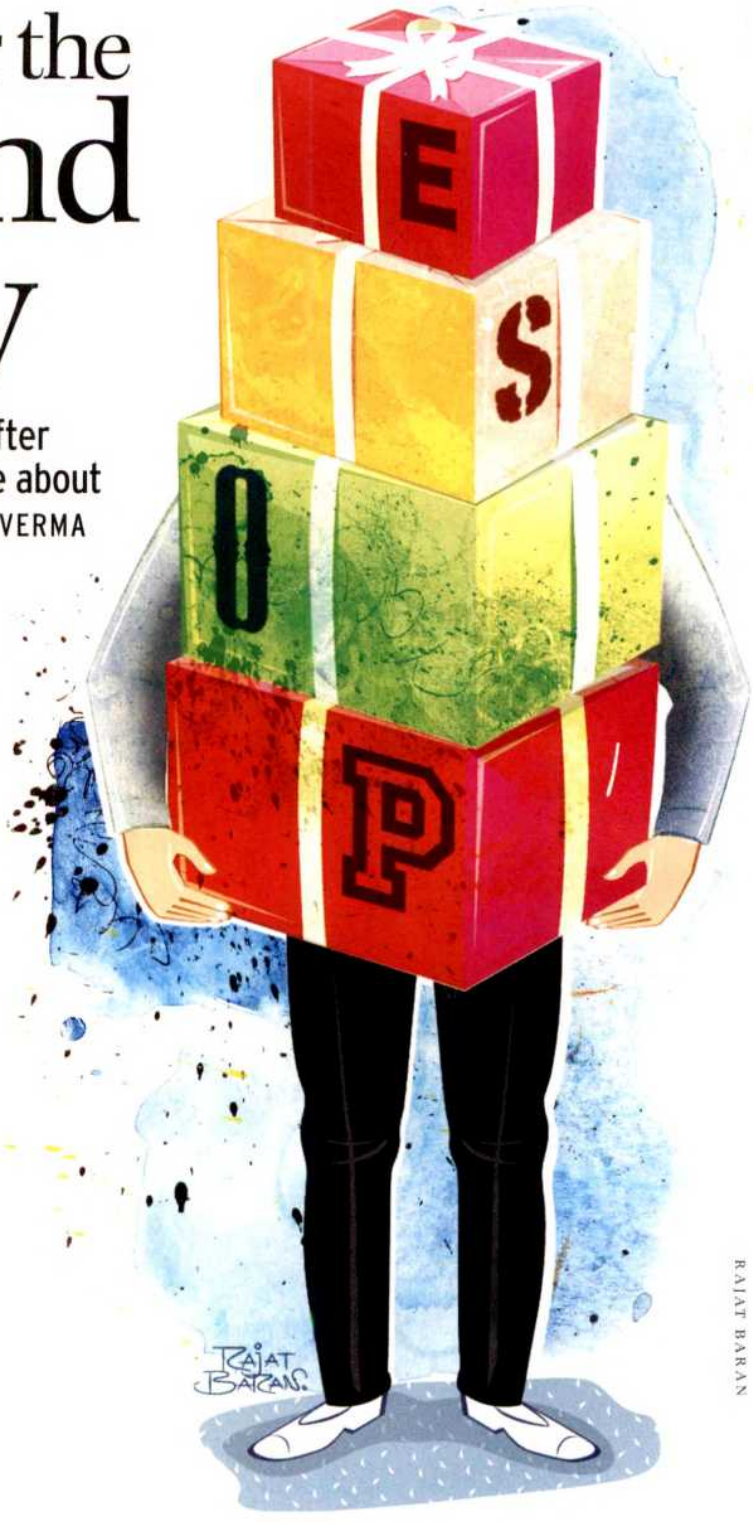
Preparing for the Year-end Bounty

If you are likely to get ESOPs after appraisals this year, learn more about what to do with them. By TANVI VERMA



If your employer is planning to grant you employee stock ownership plans, or ESOPs, this year, along with your regular bonus, increment or promotion, this is a good time to understand this complex incentive. You must have a financial plan in place to make the best of this bonanza.

Deconstructing ESOPs

The trend of awarding ESOPs was started by the information technology industry. "Many sectors today, including financial services, retail and consumer products companies, are extending this benefit," says Homi Mistry, partner, Deloitte Haskins & Sells. But why ESOPs? "This is primarily an employee retention tool," says Anil Rego, CEO, Right Horizons. It is important to understand the nitty-gritty as unlike a bonus, the tax treatment for ESOPs is complicated. It is only after the vesting period — decided by your em-

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ployer — that you can exercise your option to buy the shares of the company you work for. The price you have to pay is generally lower than the prevailing market rate. "In fact, the vesting is done in such a way that the exercise is staggered over three to five years. The idea is to ensure that the employee is tied to the company for a longer time," says Rego. An employee typically buys the shares only if the market price is higher than the exercise price.

Tax on ESOPs is paid on the difference between the fair market value of the stock (the average of the opening price and the closing price on the day the option is exercised) and the price at which the option was granted. "This amount is treated as a perquisite and taxed from the employee," says Mistry. You also pay 15 per cent short-term capital gains tax if you sell these shares within one year from the date of allotment. There is, of course, no long-term capital gains tax, as in the case of other equity transactions. "Typically, ESOPs over the long haul could prove to be a sure way of enhancing your net worth," says Rego.

But financial planners say the tax liability can be an undue drain on finances, especially if the amount is large. For instance, *(See How ESOPs are taxed)* if the number of shares was 1,000 instead of 10, the tax liability could have crossed ₹1.5 lakh. "Many times, this results in employees selling off their shares immediately to ensure that the adequate tax amount is available," says Mistry. However, you still have the option of selling a few shares and holding on to the rest.

Manage Your Windfall

- Spend some money
- Start a contingency fund
- Deploy some funds in areas you had been intending to as per your financial plan
- Prepay expensive loans

Deployment Avenues

The cash your stock options bring in could be a big lump sum. The temptation to spend it all will be hard to resist. But here is a word of caution. "Depending on the quantum of your windfall, you should try to invest at least 40 per cent of the amount," says Kartik Jhaveri, financial planner with Transcend Consulting.

Alternatively, if your contingency fund is running low, this may be a good time to replenish it. Financial experts say, at any given point, you should put aside an amount equal to about six months of your expenses in such a fund. You can either park this money in a bank fixed deposit or a short-term fixed maturity plan, since both offer short-term maturity options. Earlier, a liquid fund would have been ideal, but lately these funds have been fetching very low returns of about 4.5 to 5.0 per cent.

Jhaveri suggests the money can also be used to fulfil any deployment which may be pending as per your financial plan. For instance, if you need to increase your equity allocation, this lump sum amount can be converted into a Systematic Transfer Plan, whereby money is transferred into an equity fund at the frequency you choose. This works like a Systematic Investment Plan and lowers the risk of investing all your funds in stocks at one go. Also, it may be worthwhile to prepay any expensive loans that you might be carrying. This could include your credit card outstandings that comes at an interest rate of up to 36 per cent or your personal loan on which you might be paying between 18 and 20 per cent. You could also consider prepaying your home loan. "If you have a good deal on interest rates and are saving tax through the loan, this may be given a miss. You may want to consider investing some of your windfall in some other asset class," says Rego. It could be a direct equity portfolio or a commodity fund. So, there are a number of options for you. Just wait for the good news to trickle in. ◆

Courtesy: *Money Today*

How ESOPs are taxed

STAGES	DATE	PRICE PER SHARE ₹	TAX TREATMENT	TAX TO BE PAID (₹)
On grant of options (10 shares)	1.4.2008	500	None until exercised	Nil
On vesting	1.4.2010	800	None until exercised	Nil
On exercise	1.8.2010	1,000	Tax on difference between the fair market value and the grant price per share	1,500 (Tax @ 30%, assuming highest income tax slab)
On sale of shares	1.12.2010	1,200	Short-term capital gains tax on difference between the sale price and FMV per share	300 (Short-term capital gains @ 15%)
Total Tax to be Paid				**1,800**

What's Cooking?

A booming economy means big business for premium kitchen brands, says Anumeha Chaturvedi

RACHIT GOSWAMI/www.indiatodayimages.com

Managing Partner Rati Sharma with Poggenpohl kitchen brands

Nergish Udwadia swears by Poggenpohl. The iconic German kitchen brand has been in India since 1988, but Udwadia first heard of it in 2001, while travelling abroad. "My friends there raved about their spick-and-span Poggenpohl kitchens and I was impressed. The kitchens looked hassle-free and were easy to maintain," recalls the Mumbai-based retired English professor. On her return, she decided to splurge ₹8 lakh on a Poggenpohl kitchen. "Even after 10 years, it looks as good as new. The design, look and quality are great. When I heard about its life-long warranty, I laughed it off. But I realise it is true," she adds.

The likes of Udwadia are driving Poggenpohl's success story in India. Established in 1892, Poggenpohl is the world's oldest furniture and modular kitchen brand. The company has made a quick comeback after the 2008 slowdown and attributes the recovery to its successes in emerging markets like India and China. In India, it has been growing at 40 per cent year on year since 2008 and posted a turnover of ₹18 crore in 2009/2010. "Customers and interior designers are moving away from carpenter-made cabinets to modular options," says Rati Sharma, Managing Partner, Poggenpohl India. The company has three stores in Delhi, Mumbai and Bangalore, and plans to open two more — in Hyderabad and a second one in Mumbai — this year. The new store in Mumbai will also be the world's first to showcase the Poggenpohl-Porsche range. The brand tied up with Porsche Design last year to launch a kitchen range targeted at men, priced upwards of ₹1 crore.

Poggenpohl may have been the first foreign kitchen brand to enter the Indian market, but it has plenty of competition today. Rising consum-

erism and disposable incomes are leading the demand for premium kitchen products. The size of the market in India is estimated at $45 million or ₹207 crore by global real estate services firm Jones Lang Lasalle. Weber, a premium US brand specialising in charcoal grills and accessories, set up its Indian arm in 2008 and works with a 100-strong distributor network. "Our turnover has tripled in 2010/2011 from ₹1 crore in the first year," says Managing Director Sivakumar Kandaswamy.

Miele, a 111-year-old German brand, came calling in October 2009 and is already eyeing an annual turnover of ₹100 crore by 2014. "We hope to grow at 25 per cent for the next 10 years," says Managing Director Dhananjay Chaturvedi, sitting in Miele's 8,500-sq-ft Experience Centre at Jasola in Delhi. Miele, whose clients include corporate and political biggies, including the much-maligned A. Raja, manufactures a wide variety of kitchen appliances. The MasterCool collection that includes freezers, fridges and wine conditioners is the most expensive range from Miele, and a combination of all three would set a buyer back by ₹23 lakh. The range boasts features like dual-cooling system and touch controls. Miele has 13 touch points in Delhi, Mumbai and Bangalore, and plans to expand to 24 this year.

All the global brands take pride in their European heritage and the longevity of their products

Other worldwide players like Veneta Cucine, Bulthaup, Sub Zero and Wolf are ramping up presence via tie-ups with local dealers and master franchisees. "Luxury projects and development initiatives present a huge opportunity for such brands," says Berty Tarrab, Managing Director, Top Products India. Set up in 2010, Top Products is the authorised partner and distributor of Bulthaup. It also sells Sub Zero and Wolf products in Mumbai and Delhi.

Ravi Dutta, CEO of Delhi-based German Building Technologies, a building and housing accessories importer, says, "Rising incomes and growing confidence are making people move to premium products. The high-end appliances and furnishings space is clocking a 45 to 50 per cent growth." The firm, a master franchisee of high-end fitted kitchen maker Siematic, is registering a growth of 120 per cent in enquiries.

Tie-ups with real estate developers and hospitality chains also bring business to these brands. While Top Products counts Grand Hyatt Goa and Lodha Developers's Signature One as its chief projects, Miele has tied up with M3M India and Tata Prive for their Gurgaon and Lonavala projects. "About 50 per cent of the business of our Asian subsidiaries is likely to come from such projects," says Chaturvedi.

All the brands take pride in their European heritage and the longevity of products. "Every Miele appliance is built to last a minimum of 20 years," says Chaturvedi. Poggenpohl also claims similar standards. "We have set a benchmark in kitchen design and innovation," insists Sharma. The purchase, delivery and installation process takes two to three months, but for customers like Udwadia, that is no deterrent. "Their service is fantastic. It seems like the easiest thing to order," she says. For the sake of Poggenpohl, and others in its league, here's hoping others agree. ◆

Turning on the Heat

Competition among leading global brands is hotting up in India

POGGENPOHL: The oldest brand in the world, it specialises in modular kitchens

MIELE: The German luxury brand sells both built-in and free-standing appliances

GERMAN BUILDING TECHNOLOGIES: Importer and supplier of kitchen furniture brand Siematic

TOP PRODUCTS INDIA PVT LTD: Authorised partner and distributor of kitchen brands Bulthaup, Sub-Zero and Wolf

VENETA CUCINE: Renowned Italian brand which specialises in fitted kitchens

WEBER: Premium American brand specialising in charcoal grills and accessories.

Casting a Green Net

Ways in which IT can be made less damaging to the environment.

Recently, I met Chandrakant Patel, a Gujarati from Bihar who moved to the United States after school, and worked as a dishwasher as he put himself through community college. Today, Patel is a Fellow at Hewlett-Packard and works at HP Labs. He has some fascinating ideas about how the information technology industry can be made more environment friendly.

It may not seem much but the IT industry already makes for about two per cent of the total electricity consumption in the world. This is rising every year as more and more people not only buy computers, but also log into social media sites, consume increasing hours of Internet video and store everything on the cloud.

India's Environment Minister Jairam Ramesh says he closes his ears every time leaders from the IT industry talk green. And if any of you have ever visited a data centre where thousands of computer servers are kept in rooms chilled at 18 to 20 degrees Celsius, you get an idea about the kind of energy consumption I am talking about.

To make matters worse, due to erratic electricity supply, most data centres and IT offices in India are powered by diesel generators, which, despite advances in technology, are not what one would call environment friendly. Indeed, India's much-touted mobile revolution has come on the back of diesel generators. Tens of thousands of gensets can be found across the country powering cellphone towers.

So what is the solution? Patel says better connectivity means data centres do not need to be in cities, and thanks to technology, could be managed by very few people. So they could be located near dairy farms and run on excrement. But that is not a revolutionary technology in India, where village people still use cowdung cakes as domestic fuel. Patel says cowdung can be processed in inexpensive digesters to produce methane, which can be burned to create power.

And for that matter what about solar technology? India's tryst with solar energy has been a start-stop affair so far. But at least the mobile communications industry can take the lead here. Mobile towers can easily have solar cells mounted on top of them, which may not completely do away with the need for diesel generators, but could definitely cut down on the use of polluting fuel. Another idea is developing gadgets that run on solar power. A case in point: Samsung showcased a solar-powered phone in 2009 — the Solar Guru E1107. Sadly, it seems to have been a one-off case.

SANTOSH

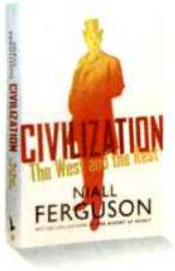
Ramesh does have a point. The IT industry and IT users, which include people reading this column, should take the lead. Thanks to advances in technology, devices today are more energy-efficient than their predecessors. But we also use more of them — more computers, more phones and more tablets.

At the back end, our rising appetite has led to more servers and more data centres. In fact, as Patel argues, better use of IT can lead to gains in energy efficiency. Data centres can be better managed along with being better located. Why should a data centre be located in a concrete block in Navi-Mumbai, when it could be located at a much cooler Panchgani? Do people really care where their data is stored as long as they can access it whenever and wherever they want?

And each one of us can also do his bit. This does not mean fewer videos on YouTube or shorter chats on cellphones. It means buying more environment-friendly hardware and better power management (switching off power or putting gadgets in sleep mode). It also means instead of long speeches at environment summits, the IT industry should become a leader in alternative energy solutions. ◆

Civilizations

The book explains the history of the W



Civilization: The West and the Rest
By Niall Ferguson
Publisher: Allen Lane/ Penguin
Pages: 402
Price: ₹699

Niall Ferguson's *Civilization: The West and the Rest* defines what the word "seminal" ought to be. In a sweepingly brilliant statement, Ferguson takes the reader through a journey spanning over 600 years to demonstrate how the West is in perceptible decline, while the East has only one way to go, and that is up. He has covered 600 years of world history in an engaging style that lingers after you have put the book down. Ferguson says that civilisations are complex and organised asymmetrically and straddle order and disorder both at once, till they reach a kind of tipping point. Then they fall apart like a pack of cards even though they might look stable eternally.

His central thesis: how on earth did a certain set of people end up ruling the planet to the extent that by 1913 they ruled 60 per cent of the world by population and 80 per cent by value? He argues that the West had six "killers apps" — economic competition, the idea of property rights, the scientific revolution, democracy, medicine, and the Protestant work ethic — and this formed the lynchpin of its super economic success.

Ferguson argues that the East is imitating the West. If this is true, I asked Ferguson, does it not show the triumph of the West rather than its failure? He agreed wholeheartedly and commended the insight. However, he argued that China has only partially downloaded the killer apps and not all of them — especially political freedom and democracy.

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Vein Concerns

Jet-setters need to guard against deep vein thrombosis, says Rahul Sachitanand

After a tiring trans-Atlantic flight in January, a senior manager with a top outsourcing firm, returning to Bangalore, woke up next morning to discover his calves swollen and his legs feeling heavy. By the time he'd had breakfast, the veins around his ankles were quite prominent. The 45-year-old had spent the past few days working continually on contract negotiations in the United States. After a drink and a heavy dinner, he had slept through his flight, except for a quick layover in Europe, and woken up only to stagger home.

But when he visited a hospital a few days later, the swelling of his legs was diagnosed as deep vein thrombosis or DVT — an ailment where the veins get clogged by blood clots, and which can potentially lead to a pulmonary embolism, or blockage of the main artery of the lung. Business travellers, cooped up in offices and conference rooms or aboard flights, with little exercise and consequently poor blood circulation, are in the highest risk bracket. "It is now confirmed that sitting in the same position for a long time and consumption of alcohol aggravate the onset of DVT," says Dr U.V. Rao, a vascular surgeon at Bangalore's Manipal Health Enterprises.

The likelihood of DVT increases with dehydration, consumption of alcohol and being cooped up in a tight seat — not just on a long-distance flight, but even on a train or a bus overnight. "Since planes are pressurised chambers, the previous claim that high altitude was a key contributor to DVT is now contentious," says Rao.

Frequent travellers, aware of this threat, try to fend off DVT in different ways. Sleeping on flights, say some doctors, may worsen the condition, since inactivity can catalyse clot formation. Some say they try to sleep as little as possible — difficult on long flights — and instead take regular strolls down the aisle. Others avoid the temptation of hard drinks in mid-air and instead gulp water or isotonic drinks to keep themselves hydrated.

The onset of DVT is closely linked to age, with older people more prone. In 2001, the last time such a study was conducted, the medical journal *Lancet* estimated that there were around one million cases of the ailment worldwide. Up to five per cent of frequent flyers can develop the disease, say various studies.

The detection and treatment of DVT has become simpler today. With the advent of third-generation ultrasound tests, a competent radiologist can easily locate these blocks. Administration of heparin, a blood thinning drug, eases the pain and also lowers the chances of more dangerous complications. But doctors say frequent travellers often ignore the early symptoms of DVT — ascribing them to stress or fatigue — and end up scrambling to a hospital only when they have no choice. "There is only a two per cent chance of DVT worsening into pulmonary embolism," says Rao. "Yet it is better to be safe than sorry." ◆

SANTOSH

PAINFUL SQUEEZE

1. DVT occurs when blood clots form in the vein of the leg
2. Sitting cooped up for long periods is a common cause
3. Chances of DVT increase with age
4. Walking in the aisle during flights and drinking red wine in moderation lessen the risk of DVT

Time to be a Patent Agent

The current pool of patent agents is way too small to meet the demand, says Manu Kaushik

G Nataraj, a chemistry graduate and practising lawyer, started off 18 years ago as a registered patent agent. In 1998, he co-founded Subramaniam, Nataraj & Associates, an intellectual property law firm providing legal assistance to domestic and international clients in filing and registering patents, trademarks, industrial designs and copyrights. Nataraj has worked with over 2,500 clients across companies and institutions, including Lupin, Cadila, Intel, Procter & Gamble, the Indian Institutes of Technology and the Council of Scientific and Industrial Research. His firm takes up around 200 applications every month. "Over the past few years, the business has grown exponentially," he says. "We employ 15 patent agents and are looking to hire more, but there is a skill shortage."

The dearth of competent patent agents has begun to pinch firms like Subramaniam, Nataraj & Associates. At present, there are only 1,626 registered patent agents in the country, which is quite inadequate. "The country needs at least 2,500 agents right now," says Nataraj. Changes in IP laws, coupled with trade development in India, has led to a sharp jump in patent filings in the country. In 2004-05, for instance, 17,466 applications were filed, which has grown to 37,000 in 2010/11. With the number of applications expected to cross 50,000 in the next three years, there is a pressing need for more agents.

Patent agents are professionals with a science background who have cleared the annual exam conducted by the Patent Office. Their job involves analysing the patentability of an invention, drafting documents and pursuing them at the Patent Office.

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Law firms, educational institutes and corporates such as pharma, biotech, and information technology sector companies routinely hire patent agents. "Besides having knowledge of patent-related laws, the agents should also know the range of protection they can offer a client's invention. There are many colleges that offer courses in patent law. However, they lag behind in providing practical training," says Shamnad Basheer, Professor in IP law at Kolkata-based National University of Juridical Sciences.

While all those who have passed the Patent Office exam are in demand, law firms prefer those with law degrees as well. It makes sense: an agent without a law degree is not allowed to handle litigation when a client is denied a patent by the authorities. "Law firms have to deal with a wide range of clients where they have to offer end-to-end solutions relating to a patent grant," says Basheer. Starting salaries for agents at top law firms vary between ₹30,000 and ₹40,000 per month. "For the corporate sector and scientific institutions, agents with strong domain expertise, including PhDs, are preferred," he says.

The small and medium enterprise sector also has immense opportunities for independent patent agents. "Patenting activity by SMEs in India is still modest compared to that in developed economies. But this is going to change rapidly," says Raghavendra Saha, Director, Patent Facilitating Centre. SMEs which cannot afford to employ law firms or set up in-house teams will opt for services of patent agents who are practising on their own, he adds. ◆

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Description: Looking out for Senior SQL DBA professionals with 5 to 10 years of experience for our projects in Navi Mumbai.

Unity Infraprojects Limited
Resort Manager
Location: Goa
Job ID: 9437514
Description: The candidate should be a Hotel Management Graduate with an experience of 4 to 5 years.* He should be familiar with local languages and culture and should be within the Resort. * should also have good local contacts and marketing skills

Cognizant Technology Solutions India Private Limited
Project Manager
Location: Mumbai
Job ID: 9012698
Description: Role: Requirements analysis of the client; Interacting with the client to clarify any queries/issues. Project Management; Project Planning, Estimation.

Cybage Software Pvt. Ltd.
Administration Manager
Location: Pune
Job ID: 9483476
Description: Function: Overall responsible to develop, implement and maintain efficient administrative processes and services with the aim to be best in class.

SAP
Business Development Manager
Location: Mumbai
Job ID: 9380747
Description: Duties: Identifies, pursues and closes regionally based Solution Extension sales opportunities through effective partnership; Develops internal and external customer loyalty and credibility.

Sapient
Sr. Associate - Infrastructure (Java Platform)
Location: Gurgaon
Job ID: 9262529
Description: The Senior Associate Infrastructure is responsible for setting up environments and provides tech support and guidance for the project/ engagement on development/ support/production environment, associated hardware, operating system.

Pegasystems Worldwide India Pvt. Limited
Manager - Financial Services
Location: Hyderabad
Job ID: 9157538
Description: RTask: Contributes to bookings growth and customer success thru participation in Framework delivery teams. Builds business processes and supporting functions etc.

LSI
Sr Facility Manager
Location: Bangalore
Job ID: 9340837
Description: Incumbent will be responsible for all property management functions at LSI facilities in India, China, and the rest of APAC.

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ValueLabs
PL/SQL Developer
Location: Hyderabad
Job ID: 8367381
Description: Role: Be a part of offshore team working on Data warehouse and other database applications. Involve in development and unit testing.

Patni Computer Systems Ltd
SAP Professionals
Location: Pune
Job ID: 9217501
Description: Should possess 6 + years of experience of which at least 3 yrs should be in Variant Configuration.

CIBER INC
SAP FICO professionals
Location: Bangalore
Job ID: 9241919
Description: Applicant must have done CA or MBA in finance; must have knowledge of SAP FICO, GL accounting, Accounts receivable and payable.

Omnitech InfoSolutions Ltd
Unix/Linux Administrators
Location: Bangalore
Job ID: 9327089
Description: Looking for Unix/Linux administrators with 7-11 years of experience and to be based in Bangalore.

Ness Technologies (India) Pvt. Ltd
Architect - Server
Location: Bangalore
Job ID: 8983050
Description: Architect, design and develop products that enhance client's server offerings. Conduct feasibility studies and prototypes for integrating latest J2EE and server side. Lookout for latest server focused technology trends and standards.

Deloitte
SNet - Open Source Support- Consultant
Location: Hyderabad
Job ID: 9485497
Description: Aspirant must have extensive 24/7 Level 2 Support Experience in troubleshooting with at least one of the following Apache, Jboss, tomcat, MySql, Subversion and PHP.

NVIDIA Corporation
System Software Engineer
Location: Pune
Job ID: 9485505
Description: Person must be expert in OpenMAX-IL.Strong C and C++ skills are essential. Understanding of Android Multimedia Framework is essential.

Hexaware Technologies Limited
Java Developer
Location: Mumbai
Job ID: 9250583
Description: Aspirant must have expertise and relevant work experience in J2EE, Core Java, Struts, Hibernate and EJB.

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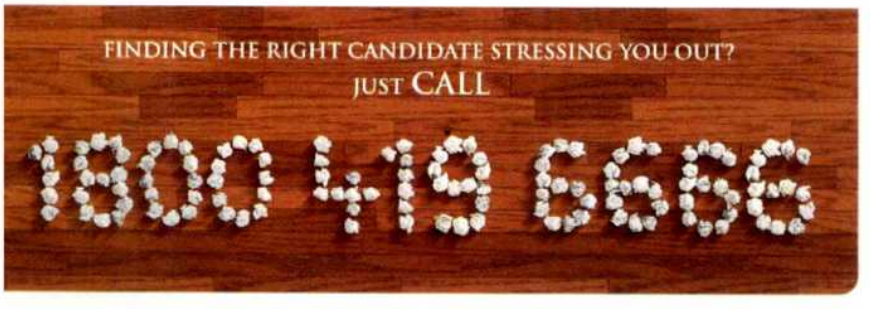

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Capgemini Business Services (India) Ltd
Sales Support Manager
Location: Bangalore
Job ID: 9425387
Description: Task: Provide capability overviews, credentials and other necessary material. Visit planning and logistics, agenda, presentation material, floor walks and post visit follow-ups.

ABB Limited
Manager Sales & Marketing
Location: Bangalore
Job ID: 9481854
Description: Job involves Marketing of High Voltage Reactive Power Compensation systems and solutions to industries, Electrical Utilities and Consultants. The job also involves extensive travelling.

Acculogix Software Solutions Pvt Ltd
Business Development Executive - International
Location: Bangalore
Job ID: 9361918
Description: Exposure in US/ International Market - Call Center (Voice Process) Outbound calls, Lead Generation & Presales Activities.

Indiabulls Real Estate Ltd
Sales Officer
Location: India
Job ID: 9119249
Description: Personal will be responsible to deal with strategic & super strategic clients and lisoning with dealers, DSA's. Should have local Market Knowledge.

Network Appliance Systems (India) Pvt. Ltd
Pursuit Business Development Manager
Location: Bangalore
Job ID: 9451066
Description: Senior sales position responsible for selling and negotiating complex IT and business solutions to drive NetApp revenue at strategic global enterprise clients (Fortune 500)
* Leads a core 'pursuit'

Schneider Electric India Pvt Ltd
Manager - Sales BMS/IBMS
Location: Bangalore, Hyderabad
Job ID: 8732042
Description: In charge for the sales & Marketing of the BMS solutions business in the assigned region. Development and growth of customer base / Market share. Enhance the brand SCHNEIDER (TAC) in the market.

SKF India Limited
Key Account Manager
Location: Mumbai, Pune
Job ID: 9413855
Description: To ensure achievement of business plan through assigned customer account and support regional manager to create preferred solution supplier status for assigned customers.

India Mart
Marketing Executive
Location: Ahmedabad
Job ID: 9486238
Description: Person must have relevant experience; should have good communication skills, posses strong relationship building; should have zeal to get more sales and earn huge incentives.

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WNS Global Services
Account Services Executive
Location: Pune
Job ID: 9387916
Description: Candidate should have basic Accounts knowledge; must be a graduate.

Integreon
Analytics Specialist
Location: Mumbai
Job ID: 9108843
Description: To perform market and financial research and analysis for leading global investment banks, private equity firms, hedge funds and research companies.

SIEMENS
Commercial Trainee
Location: Chennai, Aurangabad
Job ID: 9008271
Description: Looking for B.Com Graduate with Min. 60% & above; should have passed in first attempt; Age should not in exceed 22 years; must have experience in accounts/commercial field.

Amazon
Finance Manager
Location: Chennai
Job ID: 9205756
Description: Responsible for the development of budgets and schedules, monitors progress and initiates action to assure vendor development project objectives and schedules are met and work is performed within budget.

JSW Steel Limited
Assistant Manager Accounts
Location: Mumbai
Job ID: 9228021
Description: Duties: Maintaining MIS for all ships fixed; Keep a track of freight payable v/s paid and reconcile after voyage completes; collection of dispatch etc.

Goldman Sachs Services Pvt Ltd
Market Risk Management Analyst
Location: Bangalore
Job ID: 9018918
Description: The analyst will be a member of the Bangalore MRMA team. The Corporate Risk team is a part of the Market Risk Management and Analysis (MRMA) Department within the Finance Division.

IMSI India Pvt Ltd
Financial Process Accountant
Location: Bangalore, Chennai
Job ID: 9482747
Description: Chartered Accountant with up to 2 years experience. Excellent knowledge in financial accounting & Working knowledge in fields of audit & MS Office Applications.

Financial Software & Systems Private Limited
Senior Manager / Manager – Business finance
Location: Chennai
Job ID: 9413971
Description: Business finance role involves close interactions with the business teams to arrive at the right pricing for the various products and services.

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Room for Growth

He spent the last few years in exotic locales such as Borneo, Phuket, Auckland and Kuala Lumpur managing properties. Now, 38-year-old Australian **SHAUN LANGDON** is in India with a tough job in hand. As General Manager of the InterContinental Hotels Group — the largest global chain in terms of number of rooms — he is expecting to set up as many as 150 properties in India over the next 10 years. While the chain already has a presence in this country through its up-market InterContinental and Crowne Plaza brands, he believes the mid-market segment has more potential — the growth prospects of Holiday Inn and Holiday Inn Express are bright. To add some zing, Langdon is flying in Thai, Malaysian and Italian chefs. "We need to understand the needs of both Western and Indian guests and have tailored packages for them," he says. With about 90,000 rooms expected to be added over the next five years and a raft of global hotel chains making their entry in India, Langdon will have competition aplenty.

RAHUL SACHITANAND

Shaun Langdon
General Manager (India), InterContinental Hotels Group

DEEPAK G PAWAR/www.indiatodayimages.com

Jayanth Pooviah
Director and CEO, Deccan Charters

DEEPAK G PAWAR/www.indiatodayimages.com

High Flying!

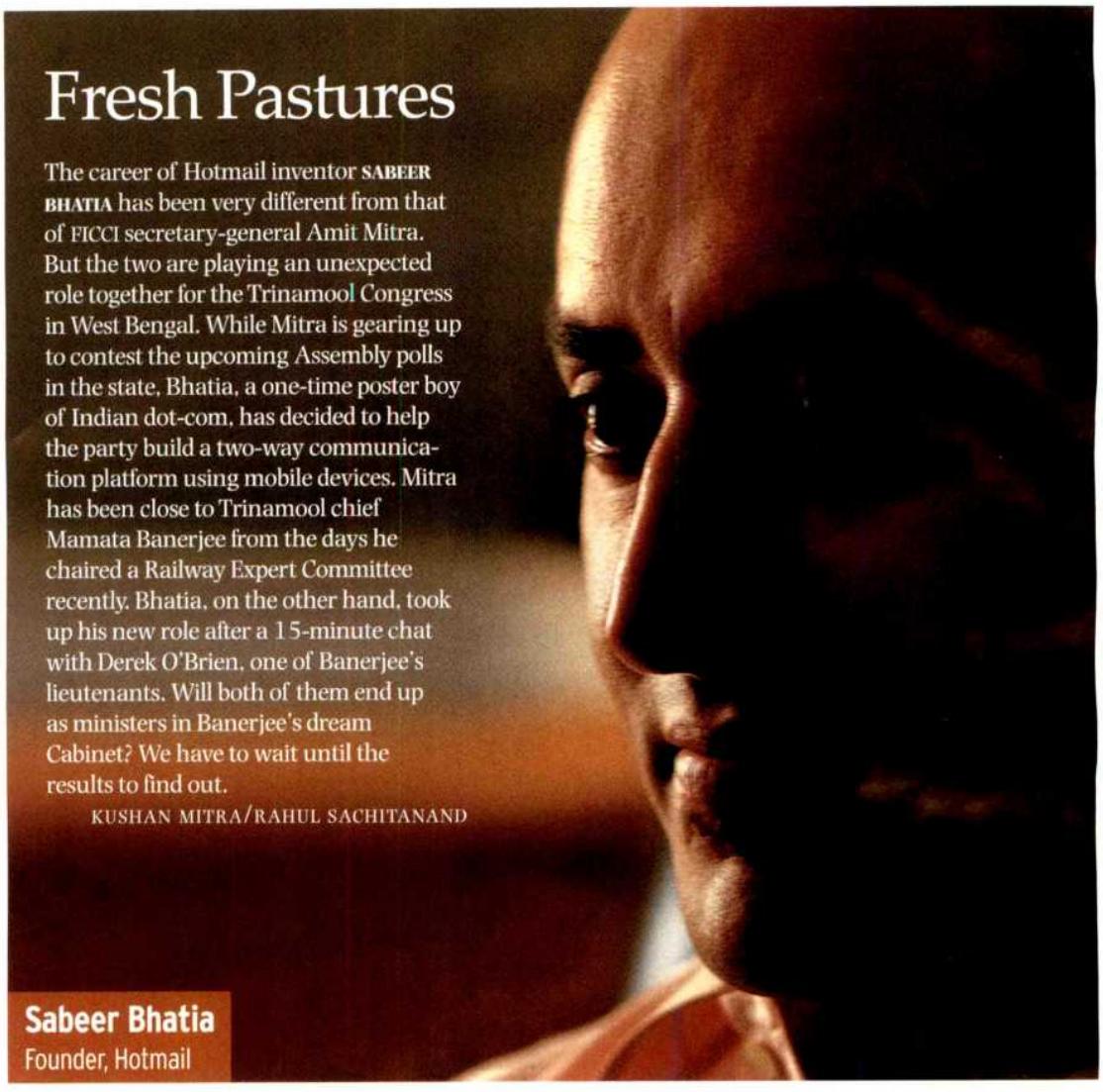
Not many politicians would have spent as much quality time with the likes of Sonia Gandhi, Atal Bihari Vajpayee or Lal Krishna Advani as retired army helicopter pilot **COLONEL JAYANTH POOVAIAH** has. He has piloted them all — and many other politicians — on numerous occasions to varied locations. Not surprisingly, Poovaiah has many amusing anecdotes to narrate, such as the one about the time he persuaded former Madhya Pradesh chief minister Uma Bharti to address a meeting standing on the bonnet of a car parked close to the helipad, instead of travelling to the stage, so that they could save time and fly off before sunset. Poovaiah joined his old Army friends, G.R. Gopinath and K.J. Samuel, after they started air charter company, Deccan Aviation, in 1997, and has been leading it (now called, Deccan Charters) since 2003. With the upcoming elections in five states, demand for helicopters is expected to shoot through the roof. "If a helicopter takes three months to do 90 hours in normal times, it will do the same in just three weeks during elections," he says. With more helicopters now available with individuals as well as companies, Deccan Charters has managed only a handful of bookings from Assam so far. But Poovaiah is not worried. Business has been going good since they tied up with the Tata Group's Taj Air — aptly named PowerFly.

K.R. BALASUBRAMANYAM

Fresh Pastures

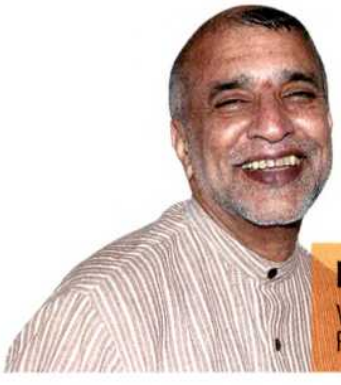
The career of Hotmail inventor **SABEER BHATIA** has been very different from that of FICCI secretary-general Amit Mitra. But the two are playing an unexpected role together for the Trinamool Congress in West Bengal. While Mitra is gearing up to contest the upcoming Assembly polls in the state, Bhatia, a one-time poster boy of Indian dot-com, has decided to help the party build a two-way communication platform using mobile devices. Mitra has been close to Trinamool chief Mamata Banerjee from the days he chaired a Railway Expert Committee recently. Bhatia, on the other hand, took up his new role after a 15-minute chat with Derek O'Brien, one of Banerjee's lieutenants. Will both of them end up as ministers in Banerjee's dream Cabinet? We have to wait until the results to find out.

KUSHAN MITRA/RAHUL SACHITANAND



Sabeer Bhatia
Founder, Hotmail

Healing Touch



Darshan Shankar
Vice Chairman, Foundation for Revitalisation of Local Health Traditions

A seemingly small event in Bangalore on March 17 was big enough for a host of VIPs, including Ratan Tata and Sam Pitroda, to mark their attendance. It was the launch of the Institute of Ayurveda and Integrative Medicine, or I-AIM, and a 100-bed healthcare centre, for which Tata trusts have pumped in ₹17 crore. The project is the result of the efforts of **DARSHAN SHANKAR**, 62, who has been striving to revive local health traditions. While I-AIM focuses on education and research, the centre looks at curative care. "We want to make I-AIM into a modern Nalanda for the traditional health sciences," says Shankar, who also advises the Planning Commission on Indian systems of medicine.

K.R. BALASUBRAMANYAM

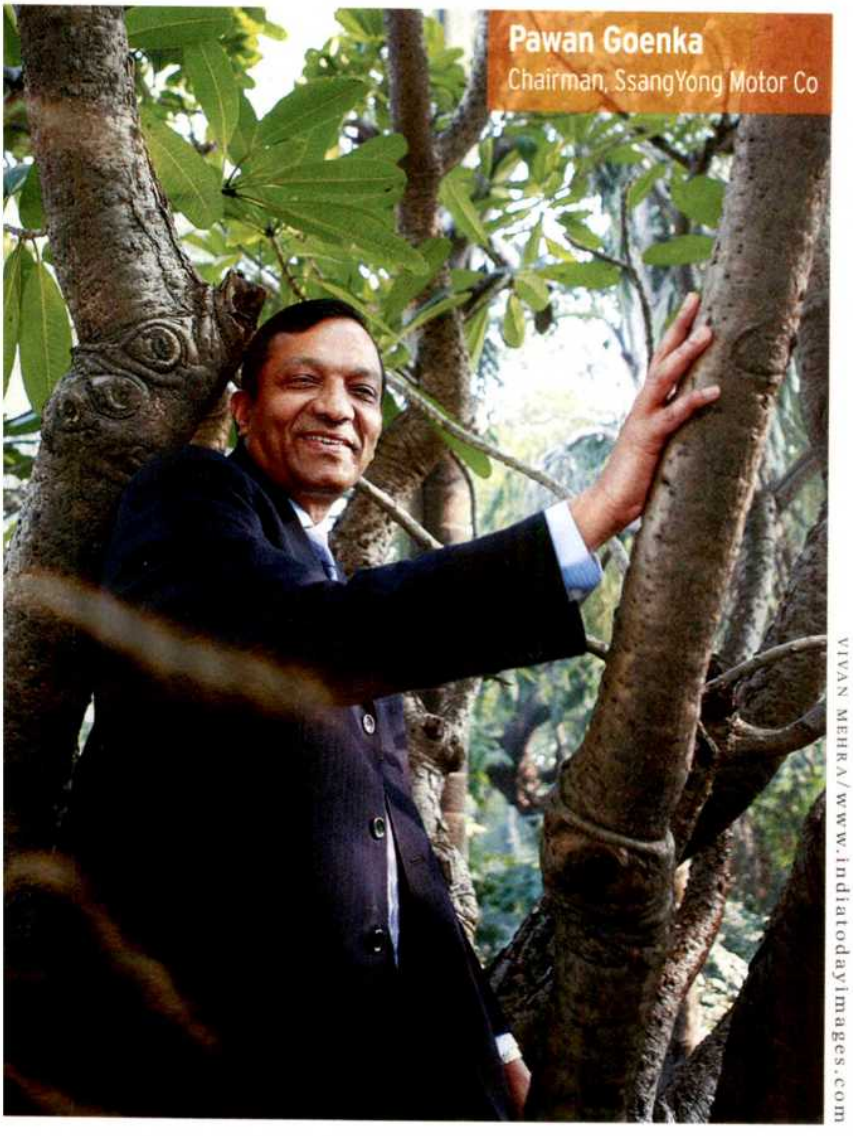
Helping the Helpers

Infosys co-founder **N.S. RAGHAVAN** is not sitting back after retirement. At 67, he is an evangelist of entrepreneurship and is now on a philanthropic mission to make life easier for NGOs. Raghavan has teamed up with Yale University alumna Priya Naik, 30, to launch Samhita, a support infrastructure for donors as well as recipients. Says Raghavan: "The portal is designed to ensure that the donation is quickly passed on to the NGO. We mandate the NGOs to provide progress reports to the donors." With the government becoming more proactive in keeping track of the flow of funds to NGOs, Samhita's effort might turn out to be truly valuable.

K.R. BALASUBRAMANYAM

N.S. Raghavan
Founder, Samhita

DEEPAK G PAWAR



Pawan Goenka
Chairman, SsangYong Motor Co

VIVAN MEHRA/www.indiatodayimages.com

Motorhead

PAWAN GOENKA, 57, has spent the last decade making Vice Chairman Anand Mahindra's vision of becoming the global leader in utility vehicles a reality. Mahindra's Man Friday is now set to become the chairman of South Korean carmaker Ssangyong, the group's latest acquisition. Whether Goenka will be able to bring about a reversal in Ssangyong's currently sagging fortunes remains to be seen, but the IIT-Kanpur graduate, who spent over a decade in the US before returning to India, is proud of his new role, in addition to running Mahindra's burgeoning automotive and farm equipment businesses. Perhaps he could start by ensuring a facelift for all Ssangyong models.

KUSHAN MITRA

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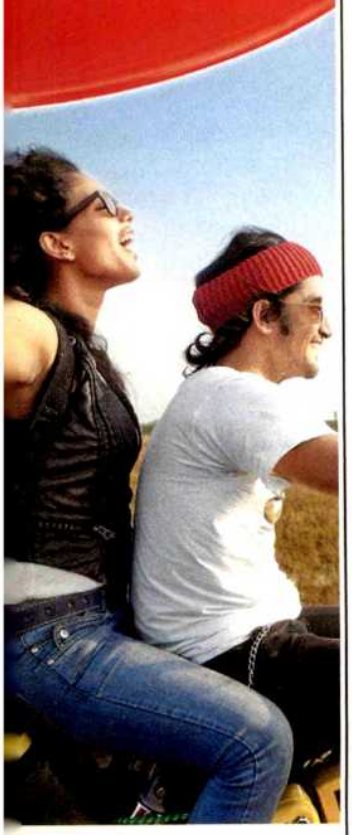

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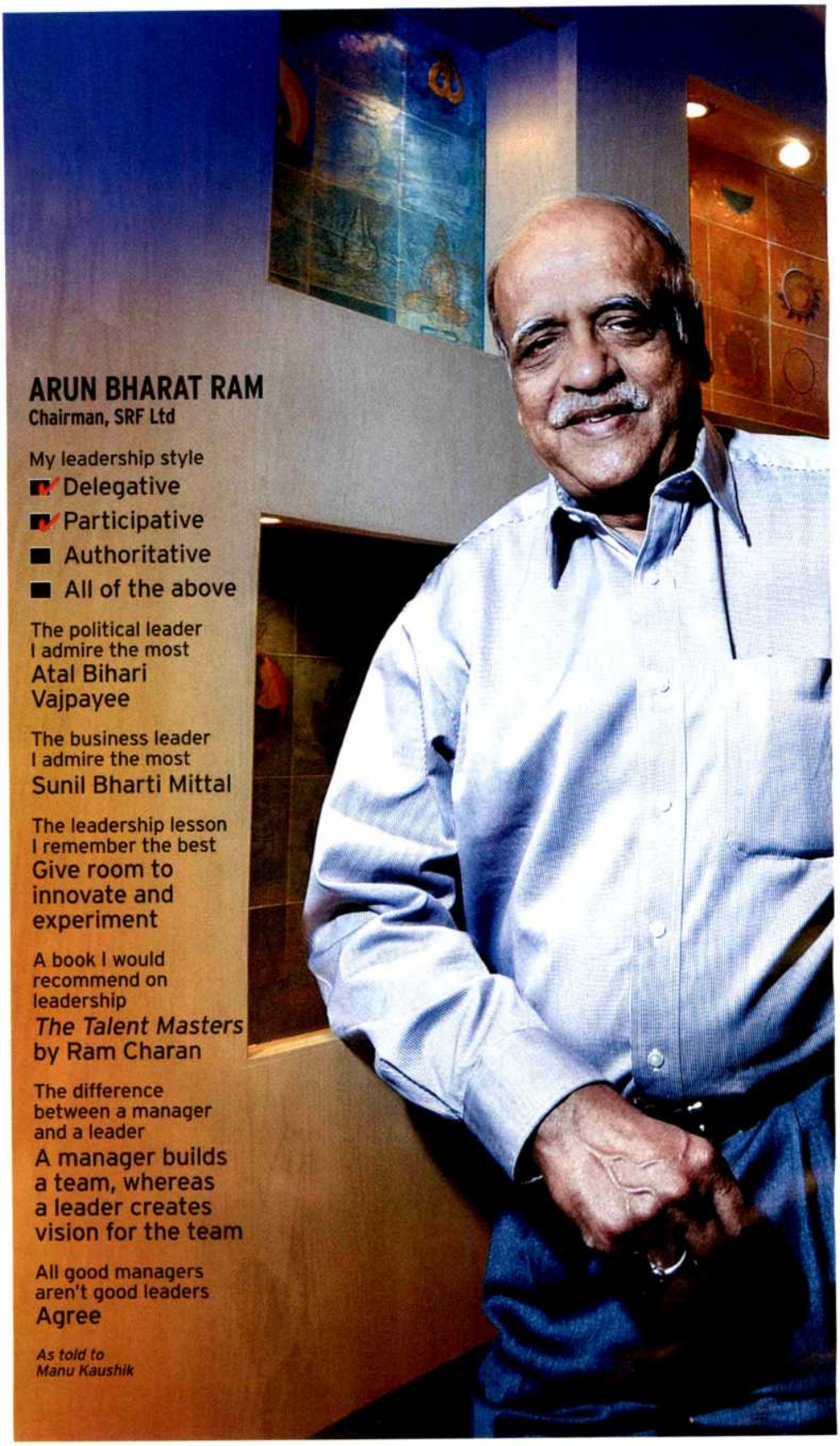

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ARUN BHARAT RAM

Chairman, SRF Ltd

My leadership style
- ✔ Delegative
- ✔ Participative
- Authoritative
- All of the above

The political leader I admire the most
Atal Bihari Vajpayee

The business leader I admire the most
Sunil Bharti Mittal

The leadership lesson I remember the best
Give room to innovate and experiment

A book I would recommend on leadership
***The Talent Masters* by Ram Charan**

The difference between a manager and a leader
A manager builds a team, whereas a leader creates vision for the team

All good managers aren't good leaders
Agree

As told to Manu Kaushik

Vol. 20, No. 8, for the fortnight April 4-17, 2011. Released on April 4, 2011.

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